The Theory of Zakah and its Application in the Sudan (1980-88)

by

Eltayeb Ahmed Shumo

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Abstract

The central problem of this research is to assess the current practice of *Zakah* in the Sudan and investigate its influence on the Sudanese tax structure and the main tools of fiscal policy.

The study comprises seven chapters. The introduction defines the scope and purposes of the study, as well as discusses some of the methodology and techniques employed throughout the research. Chapter two gives a background of the salient features of the Sudanese economy and the developments of its tax policy and structure. Chapter three examines the principles and concepts of taxation and their relevance to the Sudanese case. Chapter four deals with the principles of *Zakah* and other Islamic levies and their rationale as a tax reform policy in an Islamic society. Chapters five and six examine the developments in the implementation of the system of *Zakah* in the Sudan and outline the major findings of numerous surveys carried out during the course of the study. The final chapter contains a summary and the conclusions of the research. It provides an evaluation of the significant potential contribution of *Zakah* to the Sudanese economy in general and to the taxation policy and social justice in particular.

Declaration

This thesis results entirely from my own work and has not been previously offered in candidature for any other degree or diploma

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May it please *Allah* to accept this humble work.

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Chapter I

Introduction

1.1 Statement of the Problem

The experience of the Sudanese, during a long struggle for polititcal independence and self-determination, led to the adoption of a free social system with an emphasis on *Islam* and the traditional customs and values of the society as a guide and ideology for the country's social, political and economic changes and developments. It was hoped that this ideology would enable the society to develop in a manner which served the national goals and fulfiled the people's inspiration and needs. The adoption of *Islam* and its principles by the people have increasingly grown and developed, both as a weapon of revolution, and as an instrument for bringing unity in the society. As reported by Holt and Daly: "*Islam* played a very significant role in the development of the national movements in the Sudan during the main period of colonial domination. Without that commitment, the national movements' leaders would not able to express themselves, to maintain strong powers over the mind of the people or to serve any national cause" (Holt and Daly, 1979).

The origin of *Islam* in the Sudan, according to many historical writings, dates back to the sixth century (A.C.), when Egypt was brought under the rule of the *Muslim* state by Umr Ibn el-Aas. The spread of *Islam* was a gradual process and it was mainly through the traders to the nomadic *Arabs* in the north, the east and the west, as well as to some parts of the southern region. Up to the early eighteenth century (1821) when Mohammad Ali (the viceroy of the *Ottoman* Empire in Egypt) succeeded in annexing many parts of the country to his rule, the practice of *Islam* was only limited to organizing the social relations between tribes and establishing religious schools (known as *Khalawi*) to teach the *Quran* and enlighten people of the principles and rules of *Islamic Shariah*. The economics and administrative aspects, however, were limited to keeping the ties between the tribal society and the ruling system, as well as organizing the exchanges of goods and trade (Holt, 1961 and Shibaika, 1965).

During the period of the Turko-Egyptian rule (1821-1881), the country witnessed some developments in the economic policies and institutions as well as in the governmental body. As noted by Ibrahim (1974), the Turko-Egyptian rule in the Sudan succeeded in the modernization of the economy by introducing cash crops as an important economic activity and in encouraging foreign trade. Holt and Daly (1979), also concluded from a study about the modern history of the Sudan that the Turko-Egyptian rule succeeded, for the first time, to introduce into the country the province system to help the central government in managing the economy and running the administrative affairs in an effective manner. The role of the tribal leaders and religious men in that province system, however, was very influential, both in reducing the administrative costs and in encouraging production.

To meet the growing demands of government activity, tax legislation increasingly began to develop; the aim being to ensure a permanent source of revenue to finance the various expenditures by the state. The bulk of the tax revenue relied on land tax (the *Kharaj*), taxes on animals and goods (known as *Awaid*) and taxes on imports and exports (*Ushurs*) and other levies on individuals (tribute) digniyah. Most of these taxes were borrowed from the *Ottoman*'s system of taxation which was following to a large extent the *Islamic* patterns of taxation (Koko, 1983). Al-Gadal, in examining the taxes imposed during the *Turkish* rule criticized them on the ground that they were been extremely heavy; a considerable burden on the people. He considered them the main causal factor for the success of the *Mahadist* Revolution which succeeded the Turko-Egyptian rule in 1881 (Al-Gadal, 1984).

The *Mahadist* Revolution (1881-1898), was a movement motivated by religious, political and economic factors. The economic purpose of the revolution, however, was mainly to strengthen the state and to improve the welfare of all citizens through assuring the supremacy of law and liberating the economy from purely economic factors, as well as to rid it of foreign influence. The economic policy during the *Mahadist* State, as viewed by Al-Gadal, was primarily based on the traditional *Islamic* taxes: the *Zakah* , the spoils of war, the *Ushurs* and confiscations, as well as direct taxes and voluntarily donations by wealthy individuals (Al-Gadal, op. cit., p. 98). Shibiaka, in an historical study about the Sudan, also emphasized that the *Zakah* was the backbone of the financial structure of the *Mahadist* State (Shibaika, 1965).

An English administrator, Trimingham, in a study about *Islam* in the Sudan, described the fiscal policy at the time of the *Mahadist* Rule as follows:

> "An important institution was the *Bait-al-Maal*, the treasury, or really the State Storehouse. There was a law that all spoils of war should be brought to the *Bait-al-Maal*, which financed the *Jihad* (war for the cause of *Allah*)...etc. When the period of conquest was over, the *Bait-al-Maal* was kept stocked by taxation and confiscations. Taxation was based on the recognized *Zakah* in various forms. The innovation was that this was not a tax, but a free-will offering for the poor and was made a direct government tax. Following the custom of the *Prophet*, over each area an agent was appointed to be responsible for tax collection and see that religious regulations were followed." (Trimingham, 1983, pp. 154-55).

One thing that should be stressed concerning the institution of the *Zakah* , during the era of the *Mahadist* Rule, was its success in bringing unity to *Muslims* in a spirit of co-operation and mutual support through linking the moral values with the materialistic ones and also by establishing a system of collection and distribution which could better serve the social goals and meet the demands of the poor groups (See Holt, 1970 and Abu-Salim, 1979).

The rule of the *Mahadist* State in the Sudan, continued up to 1898 when the British decided to conquer the country by an Anglo-Egyptian force under the leadership of Kitchener. Accordingly, a condominium agreement between Britain and Egypt was signed to administer the country's rule. This time, however, the old Turko-Egyptian system of native administration and indirect rule by tribal chief, was transformed into local government with British officers taking the key administrative posts and the Sudanese sharing only in the management of their own affairs. The Anglo-Egyptian rule continued up to 1956 when the country's political independence was declared. It must be pointed out here, that the westernism in the Sudan, because of the nature of the social system of *Islam*, did not have the disruptive effect on social and cultural life that it has on pagan African communities. In particular, the moral nature and the social bonds were hardly changed by the condominium rule.

The main effect upon the Sudan has been on the economy which became strongly tied to the European economy and, therefore, dependent upon factors which lie beyond the control of the Sudanese. With reference to the taxation policy during the Anglo-Egyptian period it followed to a large extent the British system of local rates together with some traditional taxes inherited from the *Mahadist* and the earlier Turkish rules. More emphasis was placed on taxes on land and agricultural produce, as well as taxes on livestock. The reform of the taxes took more organized forms following the issuing of a series of ordinances; the Taxation of Land and the Date Trees Ordinance in 1899, the Taxation of Animals Ordinance in 1901, the Tribute Ordinance in 1901, the Hut and Poll Tax Ordinance in 1901 and later in 1913, the taxation of business profits, for the first time, came into effect in the Sudan. Since there were no national civilian officers until 1934, when national civilians began gradually to substitute foreign officers, no taxation of personal income was brought into effect. Taxation of personal income, however, was first introduced by the Sudanese government in 1964. Other taxes introduced during the British rule were the local rates and taxes initially modelled on the British type in 1927. Beside these direct levies, the British also introduced custom duties on imports and royalities on particular goods. One point that should be mentioned about the traditional taxes, is that their contribution to the total revenues were quite significant. It is estimated from a series of reports on the administration of the Sudan, for the period from 1928 to 1951, that the contribution of the traditional levies, amounted on average to about 10 percent of the total revenues (see Appendix D).

In January 1956, when the country's political independence was fully obtained, the political scene in the Sudan quickly began to move towards self-determination and to awake the people's awareness of the issues of development and of building the country's future. It must be pointed out here that, the two chief political parties which shaped, and continue to shape the political scene and social changes in the country, were the *Ummah* Party who are *Mahadist* and the National Union Democrat Party who are the *Mirghanist.* Both of the two parties are based on the philosophy of the leading religion heads, Mohamed Ahmed al-Mahadi and Ali al-Mirgani. These leaders, conducted a long struggle for self-determination in the nineteenth century. The two parties, therefore, reflected the *Islamic* bias which was dominanting the Sudanese national movements (see Shaibyakah, 1965 and Holt, 1970).

The taxation policies, like the political scene, in the post independence period, have exhibited many changes and developments. The successive efforts of the development programmes during this period, however, brought about many significant changes in the functions and roles of taxation. The tax policy, therefore, became very tied to the economic growth objectives and the country's development programmes, as well as to improving social welfare conditions and ensuring the stability of the political system. As there has been more shifts of resources from subsistence production to production for exchange and the emergence of the market relations, the emphasis of the tax policy has been towards taxes on foreign trade and excise duties on the domestically manufactured goods, as well as taxes from business profits. The traditional taxes; taxes on lands, crops and animals, unfortunately have never been tapped or even developed since they were first brought under the control of local authorities in 1954, although potentially they have high taxable capacities. With reference to the practice of *Zakah*, since the *Mahadist* rule in 1881-1898, it became merely a personal act strongly related to individuals' consciousness and religious commitments.

The development and integration of the traditional sources in the national policy, in the last decade, began in 1983 when the institution of *Zakah* became official policy following the declaration of the *Islamic Shariah* laws in September 1983. Acccordingly, all properties and taxable capacities owned by individuals, mainly *Muslims*, were brought under the policy. These included agricultural produce, livestocks, financial holdings and assets, valuable possessions and articles for trade. The institution of *Zakah* in the Sudan, however, gave birth to tremendous research efforts and a series of events to improve the practice and the policies of collection and distribution as well as to react to social goals. Such efforts are not without grounds and considerable importance. They have proved useful, and much work has been carried out on broadening for assessment.

One of the major factors which shaped the present practice of *Zakah* in the Sudan is the essence of the country's ideology and the success of the earlier experiences, especially during the *Mahadist* state. While the country's ideology reflects the laws, the political system and the social attitudes prevailing in the society, the earlier experiences set the general framework of the policy and help in understanding the values of the system and its ability to remove the accute accumulation of wealth in a few hands, as well as to eradicate poverty from the society. Another important factor which awaked the people's awareness and led to the committment of the government to the policy, is the growing influence of the *Islamic* movements in the last decade and also the substantial theoretical writtings on the field by *Muslim Scholars.* In the Sudan, throughout the 1980's, the establishment of the *Islamic Banks*, has also succeeded in the promotion of the policy and in bridging the gap between the theory and the practice. A further essential factor, in my view, which might be added to those mentioned above, especially during the present period of economic crises, is the failure of the secular taxes to respond to social demand and to address themseves to the needs of the poor, as well as their inability to mobilize the resources available in the traditional agricultural sector, the largest in the economy.

These factors and a series of social changes and events, however, brought about many political and economic changes which were finally crystallized in the present system of *Zakah* in the Sudan. Of course, it is not enough simply to build a system and provide equipment. Beside and above these factors, a well thought out and sophisticated research programme must be established to give comprehensive answers to the questions which might arise by various interest groups, and such questions as the following were asked: What is the philosophy of the fiscal policies in the Sudan? What are the goals of *Zakah* policy and what contribution can it make to the total revenues and the society's welfare? To what extent can the policy makers develop the collection and distribution techniques? and, finally to what extent can the system take account of research and incorporate scientific planning in developing all its aspects? The core of this research, thus, will be to elaborate on these issues, to report the facts and to evaluate the actual performance of the system throughout the 1980's, as well as to estimate the potential revenue yield when certain conditions (which will be explained later) are satisfied.

1.2 Motives for the Study

The motivation for carrying out this research, arose mainly from two considerations: one is essentially subjective and personal, the other is objective and of great concern. Having worked in the field of *Islamic Economics* in the University of Khartoum of the Sudan, my interest and the department brought about the realization that the recent practice of *Zakah* was in urgent need of a comprehensive assessment and to give an account of its coverage and progress in the Sudan. The lack of the empirical studies, have also given more attention and greater priority to the subject than other areas of *Islamic* economics. Furthermore, there were many factors that were bound to impinge upon any evaluation of the system. One factor, in particular, is the strong social demands of *Muslims* and the need of the society to raise funds for the support of the poor as well as to strengthen the social bonds and spirit of solidarity and co-operation between the rich and the needy groups. Moreover, it is also believed that the policy of *Zakah* plays the chief role in implanting and emphasizing the concepts and the economic attitudes of the individuals, namely consumption, investment and saving behaviour.

1.3 The Significance of the Study

The significance of this study stems from a number of reasons. Firstly, it is one of the few pieces of research in the Sudan that is concerned exclusively with the development and problems of the system of *Zakah*, both on the theoretical level and practical one. Secondly, its main purpose is to raise issues and questions and to indicate topics for further research and studies on the subject in particular and the area of the *Islamic* fiscal policy in general. Thirdly, both the policy makers and the academic researchers will perhaps benefit from this study, since many aspects of the present system have been analysed and discussed, and the need for further research has also been indicated. Fourthly, the study may also contribute to the international development of the contemporary practice of *Zakah*, as well as being used for comparative purposes. Finally, the study is intended, as a source of information, to measure the country's taxable capacity and as a guide for any further attempt to reform the fiscal tools in the Sudan.

1.4 Aims and Objectives of the Study

The study has the following purposes:

(i) To evaluate, in an objective way, the national experience of the *Zakah* in the Sudan and to present a brief review of the developments in the policy through the 1980's. This covers the assessment of the collection and distributional methods, as well as examining the significance of the revenue yield with respect to other sources of revenues.

(ii) To review the theoretical developments in the literature of *Islamic* taxation and fiscal policy with more emphasis on the *Zakah* as the core of the *Islamic* economic theory.

(iii) To contribute to the understanding of the taxation structure and policies in the Sudan and to note their influences which have affected the development of *Zakah* policy.

(iv) To bring to light the strength and weakeness of the *Zakah* system in the Sudan, through examining its problems and difficulties at both the collection and distribution levels.

(v) To examine the actual revenue yield and findings as well as to estimate the potential yield when the *Zakah* is broadened to cover all potential sources.

(vi) To raise questions that are relevant to the development of the taxation structure in the Sudan and to suggest policies that might help in developing plans and strategies for remedying the deficiencies in the revenue system.

(vii) To make recommendations for further lines of research.

1.5 Assumptions and Hypothesis

For this study to achieve its goals, the realization of the following propositions are highly important:

Firstly, the extent to which the system has the ability to motivate its members to be more productive and efficient. Of course, an organization which lacks a sound personel system and an effective training programme capable of meeting its requirement for skill and manpower, for instance, can hardly be expected to function with devotion and efficiency.

Secondly, the degree to which the institution maintains the support and co-operation of the political system (policy makers) that is necessary to give it a purposive orientation and direction. Not only is the success of the system depending on the support of the political system, but it is largely depending upon the initiative of the policy makers and the attitude of the working staff which permits them to win the confidence and esteem of the public when the system eventually aspires to serve. Moreover, an effective interaction and support between the civil servants and the masses is indispensable if the goals of *Zakah* are to be efficiently implemented and sustained.

Lastly but not least, the *Zakah* base should be broadened to include all kinds of wealth and savings owned by *Muslim* individuals, whether used in production (capital) or not (hoarding), and on certain kinds of outputs according the ratios, exemptions and specifications known to the *Islamic* Jurisprudence.

On the basis of these propositions, one can set out the broad hypothesis that such a system will conform in great measure to the environment and might be more effective in realizing the national and social goals. It should be pointed out, here, that the nature of such a study does not call for a central hypothesis, but many propositions will, however, be advanced in different parts of the study as necessary. The fiscal policies, in that regard, should work to improve the ability of the people to understand the values of the system and to give them an opportunity to develop their full potential and to express their views towards improving the welfare and happiness for every citizen.

1.6 Methodology and Procedures

In this research, it was thought to be appropriate to combine both a qualitative and quantative approaches in order to evaluate the present system of *Zakah* in the Sudan. The historical and descriptive approaches have also been considered in some parts of the study, particularly, those related to the assessment of the theoretical concepts and the elaboration of the early practice of the policy by *Muslims.* The main sources of information that were used for the collection of data and the preparation of this study included:

(i) **Books, reports and studies**; most books that have been written concerning the theory and practice of the *Zakah* policy by *Muslim* scholars earlier and during the last decades have been consulted. These include the main texts, journals, annual reports and discussion papers as well as the Sudanese ministrial resolutions, laws and decrees concerning that issue. Other studies related to the development of the fiscal policy in the Sudan, such as masters and doctoral theses and reports, have also been reviewed.

(ii) **Visitations**; during the preparation of this study, the researcher has visited most of the departments involved in the development of the *Zakah* policy as well as the ministries and units of the economic sector, namely the Ministry of Finance and the Department of Taxation. The greatest value of these visitation, so far, was the opportunity to observe the procedures of collection and distribution of the *Zakah*'s proceeds and also to note the difficulties that presently obstruct the efficiency and development of the system in the Sudan.

(iii) **Survey**; in the present survey, a questionnaire and personal interviews have been used so as to review the opinions of the various parties involved in the implementation of *Zakah.* The questionnaire, as an exploratory exercise, was designed to contain both factual questions and matters of opinions. The questions, therefore, were constructed to include open ended questions to stimulate ideas together with closed questions for obtaining more specific information. Each of the respondents has the freedom to reply without any influence from others. Confidentiality is, of course, ensured. In addition, the respondents were also given the opportunity to specify any additional opinions they might have had and to express freely their views and attitudes towards the development of the system (see Appendix 1).

One of the important reasons for carrying out this questionniare was to identify some factors felt to be fundamental to the policy and to use them as a basis for the evaluation and assessment of the present practice of *Zakah* in the Sudan. The successful application of the questionnaire, however, has been revealed in many researches related to social studies. As argued by Oppenheim (1966), the questionnaire is often the only feasible method of collecting factual information that is dispersed among members of a population. Moser (1982, p.45), also pointed out that nine out of ten social surveys use a questionnaire of some kind.

(iv) **Personal interviews**; the aims of the interviews conducted in this research are as follows: (a) to ensure that the items of the questionnaire have the same meaning for all respondents, (b) to obtain further information over and above that made possible by the questionnaire due to the flexibility of the method of the interview and (c) to reveal the opinions of the respondents concerning some aspects presumed to be neglected in the structure of the questionnaire.

The personal interviews used in this research were informal. The researcher, therefore, does not need a set questionnaire at all but only a number of key points guided by the researcher who would be free to modify questions, explain them or to add to them as necessary (Cohen, 1980, p.241). The key questions emphasized by the interviewer are related to the following issues: the efficiency and effectiveness of the working staff; the quality of assessment and the developments in the theoretical concepts. It must be pointed out here that the co-operation of the various parties consulted in this survey was remarkable. Most of the respondents were willing to give their answers because this was the first opportunity they had been given to express freely their views concerning the improvement of the *Zakah* policy.

1.6.1 Statistical Analysis

The analysis of the data collected from the survey was through the use of the statistical package for social science (SPSSx) available at the Computer Centre of Durham University. In processing the emprical data, the following statistical techniques were found to be more appropriate and relevant to the nature of our collected data: the Frequencies, the Correlation Coefficient, Cross Tabulation, Chi-square testing, the Analysis of Variance (ANOVA) and linear regression models. The use of the frequencies was in order to calculate a wide variety of descriptive statistics, e.g. the mean, the median and the standard deviation. The cross tabulation procedure was used for testing the degree of association between groups and categories using the Chi-square test. The regression analysis was used to summarize data as well to study the relationship among variables. The elaboration of each of these statistical tools will be considered with more details during the progress of the study. For the data to be easy to see and understand by readers, simple tables, bar charts, histograms and graphs will be used as necessary.

1.7 Limitation of the Study

This study, is essentially an evaluation of the institution of the *Zakah* in the Sudan, in the light of the recent practice during the eighties. The study, however, is not intended to present a final solution to all difficulties and defects of the system, but it is hoped that the points made will be taken into consideration in any future plans for developing the policy or reforming the tax structure in general. It must be stressed that, due to the wide scope of the subject and the limited time allotted to carry out this study and conduct the survey, it was not possible to cover in depth every aspects of the system. Therefore, it is decided to concentrate on certain issues felt to be important for improving the present policy and to deal in a summary fashion with several interesting branches of my enquiry. These issues covered the assessment of the major sources of *Zakah* and the development in the methods of collection and uses its proceeds. literature on the theory of taxation in the developing countries will also be touched upon in so far as it reflected the broad feature of the policy.

1.8 Concepts and Definitions

For the purpose of this study, the following terms and definitions would be of a significant importance to follow up the progress of the research:

(i) **Zakah:** Is a compulsory levy on individual *Muslims* having savings and assets valued above or equal a minimum called *Nisab*. Without going into every detail of *Zakah*, the coverage of *Zakah* includes nearly all original sources of wealth and exhausts many kinds of property the use of which is lawful under the religious principles. This covers assets in the form of cash holdings that are left idle for at least a year, articles of trade, and net returns from investment as well as incomes from employment. It is also leviable on animals and agricultural produce. However, assets which are not growing or have no growth potential are not subject to *Zakah.* The flows of income and produce in this respect are treated as indicators of the stock of wealth. For example, no *Zakah* is due from the necessaries of life such as deweling houses, articles of clothing or household furnitures as no income is generated by such assets (Choudbury, 1986, p.170).

According to the definition of al-Ghazali, the *Zakah* is the duty of the wealthy *Muslims* towards the poor in the particular society. Unlike, the voluntarily payment (*Sadaqah*), al-Ghazali (1966, p.35) stresses that the publicity of paying *Zakah* is quite relavant to the policy. In English, however, the term *Zakah* is often translated as almsgiving, alms, alms-tax, charity and wealth tax (Iqbal, 1986, pp.11-34). In contemporary writtings, some *Muslim* economists prefers to use the term religious tax or wealth tax (Mannan, 1986). As stated in the holy Quran, the *Zakah*'s proceeds should be distributed to specific categories of beneficiaries, namely the poor, the needy, employees and those in debt as well as those who face financial hardships (see *Surah* 9 (al-Taubah), verse 8).

(ii) **Nisab**: the minimum exemption limit of property relevant possessions that are liable to the payment of *Zakah.* The *Nisab* generally varies from each category of property to other. In the case of of articles of trade and financial holdings the *Nisab* is fixed in terms of possession of a certain quantity of gold or silver or assets equivalent in value to that quantity of gold or silver.

(iii) **Sadaqah**: Any voluntarily spending or a good deed in accordance with the command of *Allah*, especially those spendings for helping the poor and the needy classes in the society. Unlike the *Zakah*, no specific rates exist, nor is the payment bound by acquiring a specific amount of wealth. Also, no publicity is required in the case of paying the *Sadaqah*. The term *Sadaqah* in the *Quran* is also often used inter-changeably with *Zakah*.

(iv) **Shariah**: Divine law consisting of the *Quran* (the original source from which all principles and ordinances of *Islam* are drawn), the *Sunah* (sayings of the *Prophet* (p.b.u.h.) or his actions or any practice tacitly approved by him), the *Ijtihad* (exercise of judgement by which a decision about an *Islamic* problem may be arrived at when there is no direction in the *Quran* or the *Sunah*), and the *Ijma* (the consensus of opinion of the *muslim* Jurists). According to *Muslim* belief, the *Quran* is a divinely revealed book and as such, all laws given therein have superiority over man-made laws. (Hassen, 1981, p.36).

(v) **Takaful**: Is a mutual support which provides insurance to individuals against risks of falling into unexpected and dire need.

(vi) **Riba**: Interest or any pre-agreed excess paid or received over and above the capital in a loan transaction.

(vii) **Rikaz**: Ancient wealth, whose owner is not known, found buried in land without any effort (physical or mental).

(viii) **Kharaj**: Land tax

(ix) **Iktinaz**: Hoarding wealth without fulfilling legal obligations on it.

(x) **Bait-al-Maal**: The treasury of an Islamic state.

(xi) **Ghanimah**: Spoil of war acquired from the enemy after fighting during a holy war (*Jihad*). It is unlike the *Fai* which could be acquired peacefully without a war or affording more efforts.

(xii) **Waqf**: Any property voluntarily and permanently transfered to a charity or trust so that its proceeds may accrue to other people who deserve it.

(xiii) **Ummah**: Nation in which a number of individuals, possessing a common faith and goal, come together in harmony with the intention of advancing and moving toward their common goal.

1.9 Structure of the Study

This study has been written up in seven chapters, a selected bibliography and a list of appendices. These chapters, generally, cover most important aspect of the current problems related to fiscal policy in general and to the practice of the *Zakah* in the Sudan in particular. Whilst the first and the seventh chapters are devoted to the introduction and the conclusion, the chapters from the second to the sixth cover the main body of the research. The contents of these chapters, in brief, will be as follows:

Chapter one states the problem, objectives, assumptions, the methodology and the scope of the study. Chapter two introduces a summary discussion of the Sudanese economy and its general features with more elaboration on the development of the taxation structure and the fiscal policies. In this chapter, both traditional and modern sources of revenues to the government, will be covered and analysed. The chapter also attempts to give an assessment of the taxable capacities in the Sudan which will help in deducing the *Zakah* base and in forecasting the possible revenue yield in the future. In chapter three, a discussion of the theories and assumptions underlying the taxation policy and practice will be considered. This comprises the discussion of three issues: the first deals with the general principles of taxation, the second with the various concepts of taxation in practice and the third with the general case for an annual wealth tax, both in theory and practice. It should be pointed out here that the relevance of an annual wealth tax to this research is of great importance since it shares some common features with the *Zakah* system, for example, both are related to the full possession of wealth and levied at a relatively low rates. Also, they both aim at achieving equitable distribution and broadening the tax base.

Chapter four examines the theoretical bases and provides an historical overview of the fiscal system in *Islam* and traces the developments in concepts and practices by *Muslim* scholars throughout recorded history. The first part of the chapter focuses on the institution of the *Zakah* and its economic implications for the general taxation policy in an *Islamic* state. This includes the rules which govern the payment of the *Zakah*, the coverage of the *Zakah* as well as the beneficiaries from the levy. In the second part of the chapter, a general survey of the various kinds of taxes in the early *Islamic* state is reviewed and examined. This includes the assesssment of the *Kharaj* (land tax), the *Ushurs* (taxes on trade, namely foreign trade), the *Jizya* (poll tax on non-Muslim), treasure-troves and the *Ghanima* (the spoil of war).

Chapters five and six are mainly about the assessment of the Sudanese case for the *Zakah* and the different procedures implemented in the practice. So, whereas chapter five outlines the sailent features of the system, the different sources of revenue and the developments in legislation, chapter six is primarily concerned with the analysis of the actual revenue yield and the estimation of the potential yield. In addition, this chapter includes the findings from a survey conducted to examine the practice of the policy. The last chapter contains the summary and the conclusions of the research, as well as the recommendations for further research.

Chapter II

The Sudan Economy and Taxation Policy

The object of this chapter is to review the salient features of the Sudan economy and to examine their influence on the economic growth policy as well as on the taxation structure. The chapter is intended to provide the reader with some background about the financial resources and the role of the tax policy in the process of resource mobilization. It is hoped that the information and data which are prescribed and analysed will help the reader to understand the nature of the sources of *Zakah* in the Sudan. In order to estimate the potential revenue yields which could be collected as the practice of the system developed and more sources became accessable, it is necessary to have some grasp of the economy on which the *Zakah* base is constructed.

2.1 The Sudan Economy

2.1.1 Salient Features

The Sudan is a vast country in Africa with an area of approximately one million square miles (598 million *feddans* *) extending from the Sahara desert in the north (latitudes 23 degrees north) to the equatorial jungle in the south (latitudes 3 degrees north). The total population, according to the last (1983) census, is estimated to be equal to 20.5 million, the majority of whom live in the rural areas (about 80 percent of the total population). Almost all of those living in the

* one feddan is equivalent to 0.42 hectars or 4200 square metres

rural areas are engaged in either agricultural activities or livestock raising. The city dewellers, on the other hand, are employed mainly in the public sector, in manufacturing industries, public services or in private business. The density of population in the Sudan, however, is very low compared to the country's wide area. The average desity, as estimated in 1983, is about 9 inhabitants per square kilometer. This may reach 25 inhabitants per square kilometer in the towns and potential arable land along the Nile Valley. In the national capital (Khartoum), the population density for that year is estimated at 85 inhabitants per square kilometre. Such relatively low densities render the threat of over-population in the Sudan insignificant. (Ministry of Finance, 1988).

During the 1980s, the period to which this study is confined, the Sudan's per capita income is estimated to be equal on average to 360 US dollars, which makes it classified among the world's poorer low-income countries. During this period, the GDP average growth rate, in real terms, rather than showing a postive rate of growth, displayed a downward trend (see Table 2.1). On the other hand, the average rate of population growth for the same period was at 2.8 percent per a year. The consequence is a rapidly growing labour force and a high dependency ratio.

A prominent feature of the Sudanese economy is that it is almost entirely based on the agricultural sector (including livestock and forestry) which alone contributes on average about 40 percent of the GDP and absorbs more than 80 percent of the total population. Of the country's total area, about 200 million *feddans* (more than third) are estimated to be arable. Only about 9 percent of this arable land is currently under cultivation. This vast arable land holds tremendous future prospects for the agricultural sector. It also implies that in the coming years, the Sudan will have to concentrate on the development of its agricultural potential (Ali, 1985).

Other potential contributors to the Sudan economy are mineral resources and manufacturing industries. Sudan's mineral sector is, presently, relatively insignificant; its contribution to the GDP is well under one percent and it employs only about 1 percent of the working population. The most important mineral is currently chromite, which is found in the South-east of the country in the Ingessana Hill area. The Red Sea Hills in the east have also been found to contain mineral deposits in commercial quantities, these minerals including Zinc, Chromite, Lead, and Gold.

Manufacturing industries, on the other hand, started very recently. Up until 1956, industry's contribution to the GDP was only about one percent, rising gradually through the 1960s and reaching more than 9 percent during the 1980s. The most striking feature of the Sudan's policy on the manufacturing industry is the predominance of the consumer goods industries based on the domestically produced agricultural products. These include the processing of food products, vegetable oils, cotton spinning and weaving, flour milling, and sugar and textiles, whose contribution to the total industrial output stands on average at about 70 percent. In contrast, the production of intermediate and producer goods is quite small. More than 60 percent of manufacturing industries in the Sudan are within the public sector, with some 65 percent of the industrial establishments being based in Khartoum. This sector now employs about 5 percent of the total population, but the productivity is still very low, especially in large establishments which are working well below their capacity.

Other striking features of the structure of the Sudan's national income, include the large share of the service sector in the GDP. During the last ten years, the contribution of this sector to the GDP accounted on average for 50 percent. This large contribution is mainly due to the domination of the economy by the public sector, which provides more than half the country's investment and employment. The importance of the transport and communications sector to the Sudan economy stems from the fact that it is one of the main contributors to the development of the country's infrastructure, whereupon depends the development of other sectors.

Table 2.1: Sudan's GDP by Major Sectors

Items	1980	81	82	83	84	85	86	87
Agriculture	38%	38%	36%	34%	33%	26%	35%	37%
Industry (Manufacuring)	14% (6%)	14% (6%)	14% (7%)	15% (8%)	16% (8%)	18% (9%)	15% (7%)	15% (8%)
Services	48%	48%	50%	51%	51%	57%	50%	48%
GDP values	7626	7540	9290	6850	6730	6930	7470	8210
Population	18.7	19.2	20.2	20.8	21.3	21.9	22.6	23.1
GDP per capita	410	380	440	400	360	300	320	330
Exchange rates	2.00	1.87	1.07	0.77	0.77	0.44	0.40	0.36

Sources: Adapted from World Bank Development Reports.

Note: Agriculture covers forestry, livestocks and fishing as well as crop production; Industry comprises manufacturing; Services cover imputed bank service charges, fees, stamp duties ..etc; GDP's values in millions of U.S. dollars; Exchange rates in U.S. dollars per a Sudanese Pound; GDP's values in millions of U.S. dollars.

As Table 2.1 shows, the Sudan's national income structure is typical of that of a developing economy where agriculture plays a crucial role in the productive sectors in the economy and the per capita income accounts on average for only about 370 dollars. As the estimates show, the GDP during the period under consideration recorded a remarked fall, especially during the period from 1984 to 1986. That fall in the national income was largely due to a fall in agricltural production, the main contributor to the national economy, which was been badly affected by weather and unfavourable terms of trade. The high contribution of agriculture in the GDP may be largely attributed to the availability of abundant agricultural land and the limited development of other sectors. On the more positive side it has benefited from the attention paid by the government to agricultural development, mainly through horizontal expansion by establishing a number of new projects. Furthemore, the role of agricultural sector is highly significant in that it provides raw materials to the industrial sector and food for the whole population. Moreover livestock, as a subsector of agriculture, is a major potential contributor to the national economy.

On the other hand, the relatively low contribution of the manufacturing sector in the GDP is due to the fact that the role of industry in the national economy has been negligible despite the recent expansion during the last two decades, and also due to the low productivity of the manufacturing industries. Many of the large factories are either working below their installed capacities or lack efficient management and skilled manpower. It must be pointed out here that more than half of the total industrial establishments in the country are to be found in the public sector, although there has been much effort on the part of the government to encourge both the private sector and foreign investors to enter into industrial production.

2.1.2 The Growth of Agricultural Production

Agriculture in the Sudan is mainly traditional and for subsistence. Structurally, it is composed of two sectors: the modern irrigated schemes and the rain-fed areas. Irrigation is concentrated mostly in the publicly administered schemes lying mainly between the two River Nile's branches (the White and the Blue Nile), as well as along other river banks across the country. These areas were originally intended for the production of cotton for export, *durah* for domestic consumption and more recently groundnuts, sugar cane and wheat for import substitution and for the diversification of the production of cash crops. Only two dams for irrigation exist at present: the Sennar Dam, built by the British in 1925 to irrigate cotton in the Gezira Scheme; and the El-Damazin Dam, constructed in the early 1970s for the irrigation of the Rahad Scheme on the eastern bank of the Blue Nile. Other irrigation programmes such as the sugar schemes, are based mainly on pumps. All the irrigated schemes in the Sudan are directed by public enterprises and their main aim is to increase export and import substitution, to diversify the economy and increase per capita income, and to improve social overhead capital in education, health and housing (Mirghani, 1983).

In general, the irrigated sector in the Sudan offers the best scope for increasing the production of tradeables, the provision of raw materials for domestic industry and the securing of food supply for the urban population. In particular, there has been a sharp increase in crop production and in the average yield per hectare. Export crops are grown chiefly in these areas, notably cotton which is the country's principal export. The full utilization of the productive capacity in this sector, however, is directly related to the availability of water, essential inputs including, fertilizers, seeds, pesticides and machinery services, as well as the availabilty of adaptive research. Other measures which contributed to the increases in production in the irrigated sector during the recent years included the better incentives to tenants by abolishing or reducing taxes on exports as well as by following the policy of introducing of an individual account system as in the case of cotton production in the Gezira scheme. Cotton is the most important product in the Sudanese exports.

The second and the dominant agricultural subsector, is the rainfed areas distributed throughout many parts of the country, namely in the east, the west and the south. The major crops in these areas are: *durah* (the country's staple food crop) and oil seeds (groundnuts and sesame) for export, as well as for domestic consumption. These areas are farmed by traditional methods, although there are mechanized farms which have become increasingly important, especially for private sector investment. In this sector, the expansion of output and the increases of productivity are mainly related to weather and rainfall, as well as to the availability of machinery services and fuel in the case of the mechanized rainfed areas. The difficulty of transporting inputs into and marketed output of the remote and extensive area is also one of the constraints responsible for limiting the production in this sector. This sector, however, remains of a fundamental importance to the economy, contributing around half of total agricultural production and it is the prime source of staple food production in the country. It also contributes to export earnings through livestock rearing (ILO, 1976, p. 214). The growth of productivity for selected crops grown in both the irrigated and rainfed sectors during the 1980s were as shown in Table 2.2.

As Table 2.2 reveals, the yield in the irrigated areas is much more higher than in the rainfed sector. The causes of this good performance of crop production in the irrigated sector were mainly related to the availability of water, agricultural research and the better management facilities. The decline in the productivity of cotton in 1985/6 was due partly to the drought and partly to the spread of leaf desease. On the other hand, the low yield in the rainfed sector is mainly related to the fluctuation of weather and rainfall as well as to the inadequacy of essential inputs. In the mechanized areas, the low yield is often related to the shortage of fuel and machinery services. Other factors which may add to the low productivity of the rainfed sector in the Sudan are the lack of transportation facilities, the poor access to markets and the limited storing facilities.

Table 2.2: The Growth of Agricultural Productivity by Major Crops

Items	Yield in irrigated areas		Yield in rainfed areas		
	Cotton	Wheat	Durah	Groundnuts	Sesame
1981/82	488	432	354	311	118
1982/83	569	605	324	264	85
1983/84	618	480	208	225	95
1984/85	621	680	140	220	80
1985/86	518	550	274	281	55
1986/87	659	556	277	294	100
1987/88	630	530	160	256	105

Source: Agricultural Statistics, Ministry of Agriculture, 1988.

Note: yield in kilograms per feddan.

- **The Growth of Livestock Subsector**

The Sudan has an estimated livestock population of about 20 million cattle, 35 million sheep and goats and 2.7 million camels (see Table 2.3). Much of this animal wealth, however, is not yet used for any productive purpose. The country still imports considerable amounts of livestock products, of which the main item is dairy produce, such as milk and butter. The contribution of the country's livestock to the GDP at present stands at about 9 percent, and it employs more than 15 percent of the total population. In terms of its contribution to the country's total export earnings, the livestock subsector accounted for over 14 percent during the 1980s. This contribution, however, is very low given the estimated number of livestock. Table 2.3 below presents the changes in the national herd of the Sudan during the eighties.

Table 2.3: Estimates of the Sudan's Livestock (in million heads)

Items	Numbers of				Total
	Cattle	Sheep	Goats	Camels	
1982/83	20.9	19.5	14.2	2.8	57.4
1983/84	21.3	19.8	14.3	2.8	58.2
1984/85	20.9	19.7	14.3	2.8	57.7
1985/86	19.6	18.7	13.8	2.7	54.8
1986/87	19.7	18.8	13.9	2.7	55.1
1987/88	19.9	19.2	14.2	2.7	56.1

Source: The Economic Survey Report 1988.

The Sudan's livestock population is generally concentrated in the less accessible Eastern, Southern, and Western parts of the country where livestock is raised by pastoralists and sedentary farmers following traditional husbandary practices. However, in order to increase the production and exports from this, it is essential to improve the transportation capacity in order to allow exportable surpluses to reach foreign markets in good condition. Also, veterinary services and pasture should be improved. To avoid smuggling, which accounts for a major part of the export trade in livestock, exports restrictions should be abolished and more incentives should be directed to the ultimate producers.

2.1.3 Incentive Policies to Increase Agricultural Output

One of the most noticeable features of the economic policy in the Sudan during the last decade was the excessive expansion of cash crops production to increase exports and improve the worsening balance of payments. In order to reduce the increasing growth of imports and to meet the demand of the domestic markets, as well as of the regional markets in the neighbouring countries, the production of import substitutes such as sugar and wheat has also been encouraged by the policy makers. The main incentives that have most influenced the growth of agriculture over the past decade are those related to pricing policies and changes in fiscal and monetary policies.

- **The Producer Price Policies**

As the Sudan economy is essentially agriculture-based, most policies are designed to encourage the growth of primary agricultural products, especially those designed for export. The agricultural price policy therefore is generally export biased, with no quantity restriction on the major export items, especially cotton, gum Arabic, and oil seeds, which are the major crops produced in the Sudan beside sorgham, the country's main food crop. These exports, however, continued to be subjected to a relatively very low rates policy compared to those applied to imports. Export tax rates for most primary agricultural products ranged between 5 and 15 percent of the total values. The main goal of this policy is to stimulate exports and secure foreign exchange flows so as to help improve the balance of payments and assist overall economic stability.

Another aim of the export price policy is to reduce divergences between producers' prices and selling prices, thus to ensure the competitiveness of the Sudanese exports in the world market. On the other hand, import tax rates on most items including agricultural inputs exceed on average 40 percent of the basic values, on luxuries the tariffs rates might even exceed 100 percent of the original prices, and in some cases reach 400 percent as in the case of expensive cars and some fabrics and consumer items. The policy of adopting a higher rates of taxation on imports in the Sudan is guided by the government strategy to encourage domestic producers by supporting import substitution policies, and also by the need to reduce the volume of imports so as to improve the foreign trade deficit and to achieve a better overall performance in the balance of payments accounts. In that respect the production for the home market, however, received some protection in order to enable the domestic producers to develop their production capacity (World Bank, 1985, pp. 23-42).

During the 1980s, the government undertook a series of arrangements with IMF to increase crop production. These involved the implementation of repeated devaluations as the most favoured policy by the IMF specialists and the use of price incentives. The arguement advanced by the IMF for the devaluation policy is to expand the primary exports by farmers as a result of increasing their incomes in nominal terms. Farmers are assumed to respond postively to market forces, namely to relative changes in the prices' level of agricultural produce. Although the devaluation may expand exports, the disadvantages of the policy for a developing country is that it will increase the cost of production through increasing the import bills of essential inputs for agricultural production as well as for development.

In addition the government, in order to motivate farmers and to allow more scope for price incentives to operate, replaced in 1981 the joint account system in the Gezira Scheme by the individual account system. According to the individual account system tenants are entitled to receive the full price of the marketed output after the reduction of any running costs provided by the state, e.g water charges and fertilizers. The evidence in Table 2.2 below, suggests the individual account system was sucessful in encouraging higher yields and output in the irrigated schemes even though they remained state owned enterprises.

- **Fiscal and Monetary Policies**

Along with producer price policies, fiscal policy and monetary policies also played an important role in advancing credit services to agricultural producers as well as in controlling the overall economic growth. Fiscal measures that have been used to motivate agricultural producers include the reduction of export taxes on agricultural products and the exemption of certain import inputs such as tractors from custom duties. To improve the efficiency of agricultural production, subsidies for particular products may also be removed. Monetary policy, on the other hand, has also been used to increase production and expand exports by extending credit facilities for exports and essential food crops. This include also the implementation of the devaluation policy which aims at improving the balance of payments deficit through increasing exports and decreasing imports (more discussions of the devaluation policy will be considered later in the chapter).

2.1.4 The Growth of Industry

Industry in the Sudan was unimportant historically, but it is regarded as one of the key sectors and ranked immediately after agriculture in its importance to the national economy. It is central to any program for economic recovery and growth. The importance of the industrial sector in the Sudan lies not so much in its current contribution to the national income, as it only accounted for about 7 percent of the GDP and approximately 5 percent of the labor force, but also in its potential contribution based on the underutilized produtive capacity. The low capacity utilization of industry, however, is largely due to shortages of power, raw materials, spare parts, and skilled manpower.

The main manufacturing industries, at present, are sugar factories accounting for about 19 percent of total industrial production; the yarn and textile industry accounting for nearly 4 percent, cement for about 7 percent, tyres and tubes for about 25 percent, and the petroleum products industry accounting for more than 20 percent of current industrial production. Other important small scale industries, are flour mills, vegetable oils, soap, cigarettes, shoes, dry cell batteries and soft drinks. With the exception of some small industries, such as dry cell batteries, cigarette and flour which showed some progress in production, most of the main factories are still working far below their targeted capacity.

The low capacity utilization of industry in the Sudan, however, is largely due to shortages of power, raw materials, spare parts, and skilled manpower. The shortage of power was partly related to the rapid growth of consumer demand for power notably in the urban areas which contain more than 60 percent of the industrial establishments, and partly to the limited investments in the power sector. The problems of shortages in raw materials and other essential inputs are strongly linked to the shortage of foreign exchange. Other barriers to improve industrial production are the inadequate transport and shortage of skilled workers. These problems, however, led to inefficient production and so to less competition with imports (Bank of Sudan, 1988).

With regard to increasing industrial production, incentive policies included tax relief and tax holidays especially for foreign investments, full or partial exemptions from import duties (on machinery, spare parts and raw materials), and protection against competing imports for strategic industrial establishments. Often, in order to encourage some industrial products, profits up to specific limits may be exempted from the business profit tax. Other incentives for encouraging industrial producers in the Sudan included the provision of a suitable plot of land at a nominal value and the supply of necessary services. Recently the industrial production has received a considerable boost in terms of incentive policies to private investors and greater hospitality to foreign investments. (Ministry of Finance, 1988).

2.1.5 The Sudan's Foreign Trade and the Balance of Payments

The foreign trade sector in the Sudan is crucial to the growth of the economy, in terms of increasing output and improving productivity, as well as for the provision of more employment opportunities. Export proceeds are essential for financing the import of intermediate and capital goods needed for the development of the economy, as well as for improving the financial positions of the ultimate producers. Also in the Sudan, as one of the developing economies, the bulk of the central government revenues depends highly on the custom duties on imports and taxes and royalities on exports; almost about 50 percent of the total revenues from indirect taxes are based on the foreign trade sector. Furthermore, the achievement of a balance of payments equilibrium is always among the main planning objectives which worry the policy makers.

- **The Performance of Sudan's Exports**

Table 2.4 shows the exports trends in the Sudan over the period 1981-1987. The table reveals that the Sudanese exports have been dominated by the primary agricultural products, which account on average for more than 90 percent of the total value of exports. The principal export items are: cotton, oil seeds (sesame and groundnuts), gum arabic, livestock, hideskins and, occasionally *durah*, the country's main food crop. The largest share is that of cotton, which comprises on average more than 40 percent of the total exports. During the 1980s, exports had fallen to their lowest value in 1985, accounted only for 374 million dollars, only about 5.4 percent of the GDP. The best performance of exports was in 1984 which accounted for a growth rate equal to about 10.9 percent of the GDP. That performance was related mainly to the favourable terms of trade*The terms of trade measure the relative level of export prices compared to import prices which recorded an index value of 98 with respect to 1980 as a base year (1980=100) for most primary exports of the Sudan (World Development Report, 1985).

On the other hand, the declining prices for cotton and groundnuts in the late 1980s explained part of the poor export performance. Other factors which influenced the performance of exports in the Sudan are the fluctuations in weather conditions and the rises in the prices of essential agricultural inputs such as fuel, tractors and fertilizers which witnessed a sharp increases in the world market. In general, the fluctuations in world demand and the terms of trade on the international markets seriously affected the growth of exports in the country. For example, cotton, the country's main export, was badly hit in 1987 by sluggish demand and unfavourable terms of trade which increased input prices, but reflected reduced export prices. More details about the various Sudanese exports and their developments can be deduced from Table 2.4.

Table 2.4: The Structure of Sudan's Merchandise Exports

Years	81	82	83	84	85	86	87
Cotton	19.2%	24.9%	48.8%	49.6%	44.3%	44.0%	30.4%
Gum Arabic	10.0%	8.3%	9.4%	7.8%	7.8%	17.0%	17.8%
Sesame	9.9%	7.9%	8.7%	11.8%	11.6%	7.0%	9.0%
Groundnuts	18.6%	6.7%	2.0%	3.3%	2.7%	0.3%	0.7%
Durah	12.0%	22.2%	8.2%	0.9%	0.0%	1.7%	17.6%
Livestock	10.1%	12.9%	9.9%	11.3%	18.9%	8.6%	2.9%
Hide & skins	2.2%	1.8%	1.7%	2.1%	4.6%	4.0%	2.6%
Others	17.9%	15.3%	11.3%	13.2%	10.1%	17.3%	20.0%
Exports' values	658	499	624	732	374	497	482
GDP Values	7540	9290	6850	6730	6930	7470	8210
Exports/GDP %	8.7%	5.4%	9.1%	10.9%	5.4%	6.7%	5.9%

Source: World Bank Development Reports. Note: Values in million of dollars.

- **The Growth of Sudan's Imports**

The growth of Sudan's imports bill over the period covered by this study, however, has been dominated largely by raw materials (petroleum), manufacturing goods and equipment, transport equipment and consumer goods, especially in the case of the foodstuffs such as wheat and flour. As Table 2.5 reveals, petroleum products absorbed on average more than 20 percent of the import bill during the eighties. The large contribution of petroleum to the import values in the early 1980s, however, is mainly related to the sharp rises in world oil prices due to the control of production by the oil producing countries and the high demand by world economy. Also, the increase in the share of petroleum was partly due to increases in volumes of consumption as a result of agricultural expansion and the increasing numbers of transport equipment and other machinery which need oil, e.g. generators and pumps for irrigation.

The trends of manufacturing goods and equipment, however, did not follow a systematic order but depended mainly on the country's economic conditions and the requirements of the development programmes. These items, as they are not subject to large fluctuation in world markets as in the case of primary products, reflected some stability in their contribution to import values. The main consumer goods that showed a progressive contribution Ao imports over the period under consideration was wheat and floor. Their contribution grew from about 6.2 percent in 1981 to approximately 13.3 percent in 1987. This increase is influenced by both increases in prices of wheat and the changing patterns of consumption towards wheat, especially in the urban areas. The contribution of sugar, which used to contribute significantly to imports in the past, continued gradually to disappear from imports bill as a result of recent developments in sugar production.

Table 2.5: The Shares of Sudan's Major Imports

Years	81	82	83	84	85	86	87
Petroleum	20.3%	27.8%	26.0%	27.9%	15.0%	12.2%	19.2%
Manufacturing good	21.3%	14.9%	19.6%	18.7%	24.2%	20.2%	19.2%
Machinery & Equipment	13.9%	15.4%	15.2%	14.6%	16.6%	16.9%	18.6%
Transport Equipment	10.8%	13.2%	9.9%	10.0%	11.3%	18.1%	14.2%
3hemicals	8.2%	8.2%	12.1%	12.2%	12.3%	14.2%	9.5%
Wheat and Flour	6.2 %	4.6 %	5.1%	5.2%	7.0%	5.0%	7.6%
Tea and Coffee	2.1%	1.7%	2.5%	3.1%	5.4%	3.5%	1.7%
Sugar	8.7 %	5.4%	1.8%	1.2%	0.7%	–	2.0%
Other foods	3.2%	4.9%	4.9%	3.6%	5.9%	6.6%	4.5%
Drinks and Tobacco	1.8%	1.4%	1.2%	1.9%	1.0%	0.2%	0.2%
Textiles	3.5%	2.5%	1.7%	1.6%	1.6%	3.0%	3.2%
Imports Values	1529	1285	1354	1417	771	1138	694
GDP Values	7540	9290	6850	6730	6930	7470	8210
Imports/GDP %	20.3%	13.8%	19.8%	21.1%	11.1%	15.2%	8.5%

Source: World Bank Development Reports.

Note: Values in million of dollars.

One point that should be noticed about the development of the Sudan's imports during the last decade is their decreasing value. In absolute terms, the total value of imports during the whole period, decreased from about 1529 million dollars in 1981 to approximately 694 million in 1987. With reference to the GDP, the share of imports fell from 20.3 percent in 1981 to only about 8.5 percent. These decreases are partly related to the government strategy to reduce the volume of imports through adopting a devaluation policy which raises the real prices of imports, and partly by restricting the import of certain items. To constrain the growth of imports, particularly private luxury imports, the government in 1983 banned the import of several categories of goods, most notably private cars. Other restrictive policies included the imposition of high import duties and quota regulations.

- **The Sudan's Balance of Payments**

During the eighties, the balance of trade remained in deficit throughout, though there was some improvement. As shown in Table 2.6, the current account of the balance of payments registered a deficit of about 648 million dollars in in 1981 then gradually improved to register surpluses of 25 and 157 million in the years 1984 and 1985 respectively, then further the current account balance dropped to deficits of 430 and 422 million dollars in the years 1986 and 1987.

The worsening balance of payments during the early 1980s was mainly due to the recession in the world market and the decline in world prices for key export goods. For example, cotton exports suffered seriously from the decline in world prices and the high levels of cotton stocks in cotton-importing countries in the early eighties. Other main causes of the deterioration in the balances of trade and payments was the rises in import prices, most importantly those of manufactured equipment, and energy prices which also negatively affected the country's economic growth. The terms of trade also moved unfavourably against the developing economies, as did slow demand by the industrialized economies. Furthermore, the sluggish movement of cotton exports during 1986/87 and the need for the import of capital goods had an adverse effect on the balance of payments. However, the ever increasing deficit in the services account, and the rather frequent shortfalls in the capital account in recent years, remain one of the main worries in the overall balance of payments policy. The good performance of the balance of payments in the 1984 and 1985, however, was influenced by the improvement of export prices in 1984 and also by higher restrictions in imports in 1985.

Table 2.6: The Sudan's Balance of Payments

Years	81	82	83	84	85	86	87
a/Exports	658	499	624	732	374	497	482
b/Imports	(1529)	(1285)	(1354)	(1417)	(771)	(1138)	(694)
c/Trade balance=a-b	(871)	(786)	(730)	(685)	(397)	(641)	(212)
d/Services A/C	223	538	517	710	554	211	(210)
e/Current A/C balance =c+d	(648)	(248)	(213)	25	157	(430)	(422)

Sources: IMF, World Development Reports.

Note: Values in million dollars; figures between brackets denote negative values.

2.1.6 The Sudan's Experiences of Growth

Since Sudan gained its political independence in 1956, continuous efforts have been made to increase the growth of the economy and improve the living standards of its people. The first systematic economic planning to reform the economy and achieve social objectives, was a Ten-year Plan introduced in 1960 with the objectives of increasing the growth of the national income, to secure an equilibrium in the balance of payments through the divesification of the economy and the increase of exports, and to improve social overhead capital in education, housing and health services. The plan directed more efforts to agricultural development by expanding the areas under the irrigated schemes as well as the rainfed land. Agro-industries and physical infrastructure, however, had also recieved considerable attention in the plan. Most of these projects were carried out by the public sector which had a contribution of about 60 percent of the total investment and the remaining 40 percent of the total investment was the share of the private sector. The financing of the plan was partly secured from domestic sources including domestic savings, net factor services and net current transfers from the foreign sector, and the remaining part from external borrowing. These sources, however, covered only about 73 percent of the total requirements by the public sector and 27 percent of the total requirements by the private sector (Ministry of Finance, 1971)

During the seventies, two development plans had followed the Ten-Year Plan, a Five-Year Plan (1970-75) and a Six-Year Plan from 1978 to 1982. The main aim of these plans was to promote the GDP growth, to secure favourable balance of payments and to improve transport efficiency, as well as to attain self-reliance. In the Five-Year plan, however, agriculture received more attention in the projection of the plan and its contribution accounted for about 38 percent of the total development expenditures. Other important contributors to the plan were transport 23 percent, industry 17 percent, and services 17 percent. The share of the public sector in the total investment of the plan amounted to about 56 percent and it was concentrated mainly on large scale investment. In financing the plan, the contribution of the domestic sources accounted for only about 49 percent of the total financial requirements, the remaining part was met from external sources.

Following the track of the early plans, the Six-Year Plan (1978-82) put more emphasis on the role of increasing agricultural productivity and the need to expand exports as well as on the correction of the deteriorating balance of foreign trade. Furthermore, the plan attempted also to create a sound physical infrastructure such as roads, railways and dams and to expand social infrastructure, notably education, health, employment and training. An important role has been assigned to industrial development, where the public sector plays a major role in such basic industries as textiles, sugar and other agro-industries. The total investment allocated to the public sector in the plan was estimated to be equal to appoximately 58 percent of the total investment. The distribution of the shares of the main sectors in the plan has been agriculture 32 percent, industry 25 percent, transport and communications 24 percent and services 9 percent.

One of the distingushing policies which characterized the Six-Year Plan from the previous ones is that it encouraged the role of private sector to participate in productive investment including agriculture. Both domestic and foreign private investors had been motivated to contribute to the development task. These motives included the provision of special concessions and the exemption from business profits tax for five years, as well as the exemption from customs duties of the required inputs for production. Incentives to motivate private investment in agriculture covered the granting of public land for a period up to 25 years but which is subject to renewal (Ministry of Finance, 1982).

After the Six-Year Plan, and due to the increasing role of the IMF in the Sudan during the 1980s, the government undertook a series of three-years stabilization programmes with the technical advice of the IMF's specialists. These programmes

Table 2.7: Sectoral Contributions to Development

Development Plans	The Share of				
	Agric.	Indust.	Transport	Services	Others
The 10-year plan (1960-69)	32.0%	13.0%	22.0%	31.0%	2.0%
The 5-year plan (1970-75)	38.0%	17.0%	23.0%	17.0%	5.0%
The 6-year plan (1978-82)	32.0%	25.0%	24.0%	9.0%	10.0%
The recent plans (1983+)	25.0%	29.0%*	20.0%	11.0%	-

Source: Ministry of Finance, Economic Survey various issues.

Note: * this include the contribution of energy which was 21%.

Table 2.8: Planned Investment and Financing

Development Plans	Total	Sectors' shares		Sources of Financing	
	Investment	Public	Private	Domestic*	Foreign
The 10-year plan (1960-69)	565.4	60.0%	40.0%	73.0%	27.0%
The 5-year plan (1970-75)	385.0	56.0%	44.0%	49.0%	51.0%
The 6-year plan (1978-82)	2660.0	58.0%	42.0%	48.0%	52.0%

Source: adapted from Nimiri, 1978 and Abdel Wahab,1976.

Note:*this includes both public and private savings.

emphasized the importance of the private sector and the role of price incentives to motivate both agricultural primary producers and industrial production, namely small scale industries. The share of the main sectors of the economy in these programmes was estimated to be equal on average to about 25 percent for agriculture, 8 percent for industry, 21 percent for energy production, 20 percent for transport and 11 percent for services. With reference to expenditures on agriculture and industry, the recent policies have focused more on the rehabilitation of the present agricultural schemes as well as on sugar and textile factories. The foreign sources of finance during the early 1980s, however, continued to be dominant with a share accounted for about 60 percent in the years 1981 and 1982. In the late 1980s, however, this share droped to 50 percent of total finance requirements (Ministry of Finance, 1987).

Very recently in 1988/89, the government introduced a comprehensive medium term development plan, the Four-Year Salvation, Recovery and Development Programme, 1988/89-1991/92, with the aims of improving the growth of the GDP, the provision of basic needs in respect of food, water, clothing, shelter, transport and health and education, and to promote regional development. The projected total investment of this programme was estimated to be equal to 15440 million Sudanese pounds distributed as follows: agriculture 27 percent, industry 11 percent, power and mining 17 percent, transport and communication 17 percent and services 28 percent. Due to Sudan's difficult economic situation, it is proposed that the contribution of foreign finance to be equal to about 70 percent of the total finance requirements. In terms of the official exchange rate which was standing at \$1=4.5 Sudanese pounds for essential imports for development, these requirements were estimated to 2400 millions dollars (Bank of Sudan, 1988).

2.1.7 Sudan's External Difficulties and Debt Crisis

During the last decade, the period to which this study is confined, the Sudan has faced a deep economic crisis and underwent many changes in its economic policy and growth strategies. The serious difficulties the country has suffered during this period had been, and continued to be, the widening gaps in financing the country's development programmes and the worsening balance of payments especially in the first half of 1980s. The origins of this crisis may also be traced back partly to implementation of ambitious planning in the seventies to transform the traditional economic structure, and partly to slow growth of productivity and of exports which has been influenced to a large extent by unfavourable world market conditions and a series of inflationary pressures, caused by the sharp increases in oil prices in the early eighties. Other domestic factors that contributed to sharpening economic difficulties include the lack of efficient administration, the shortages of skilled manpower, the fluctuations in weather conditions, and the country's political instability.

As a result of these difficulties, the total balance of payments deficits grew to about 648 million dollars in 1981. Although, after that high record of deficits, the Sudan's balance of payments showed a dramatic improvement in the late 1980s, it continued to register total deficits of 430 and 422 million dollars in the years 1986 and 1987 respectively. Such deficits together with the increasing gaps in the public budgets to finance the development programmes ended up with mounting debts and increasing costs of debt services. According to world debt tables produced by the World Bank, the Sudan's foreign debts stood at 7876 million American dollars at the end of 1987. As a percentage of the GDP, this figure, however, is found to be equal to 95.9 percent, i.e. more than sixteen times the value of exports for the same year. Table 2.9 below presents the growth of Sudan's foreign debt and debt services as for the period 1981-1987.

Table 2.9: Growth of Sudan's Foreign Debt and Debt Services

Years	Public(1) Debt	Debt(2) Service	GDP (3)	Exports (4)	(5)= (1)/(3)	(6)= (2)/(4)
1981	4807	31	7540	658	63.7%	4.7%
1982	5093	11	9290	499	54.8%	2.2%
1983	5726	37	6850	624	83.6%	5.9%
1984	5659	65	6730	732	84.1%	8.9%
1985	5086	67	6930	374	73.4%	17.9%
1986	7057	32	7470	497	94.5%	6.4%
1987	7876	18	8210	482	95.9%	3.7%

Source: World Development Reports (various issues).

Notes: Public debts by official and private lenders; Values in columns 1, 2, 3, and 4 in millions of U.S. dollars; 5= the ratio of public debt to GDP; 6= the ratio of debt service to exports; column 2 refers to total interest payments on public debt.

As Table 2.9 indicates, mounting debts and debt servicing have rapidly increased and when compared with the country's export earning, they are clearly beyond its ability to pay. Debt was nearly the equivalent to the country's entire GDP value during the second half of 1980s. One of the major causes of the debt crisis over the last decade was the shortage of foreign exchanges coupled by the sharp increase in import prices and the drop in world demand.

Fig.2.1 Distribution of the GDP by Major Sectors (in %)

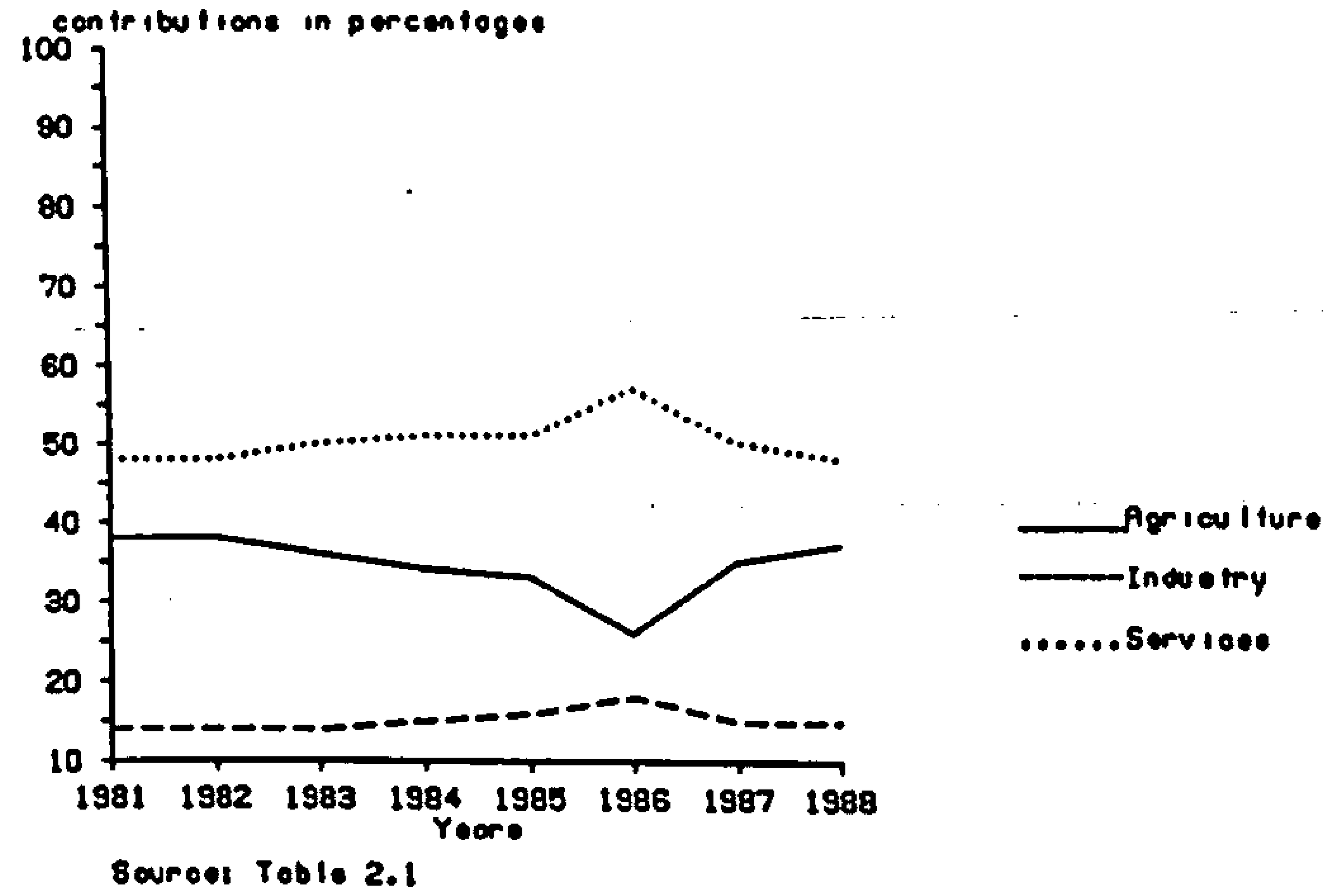


Fig.2.2 Relative Growth of Exports and Imports 1980-87

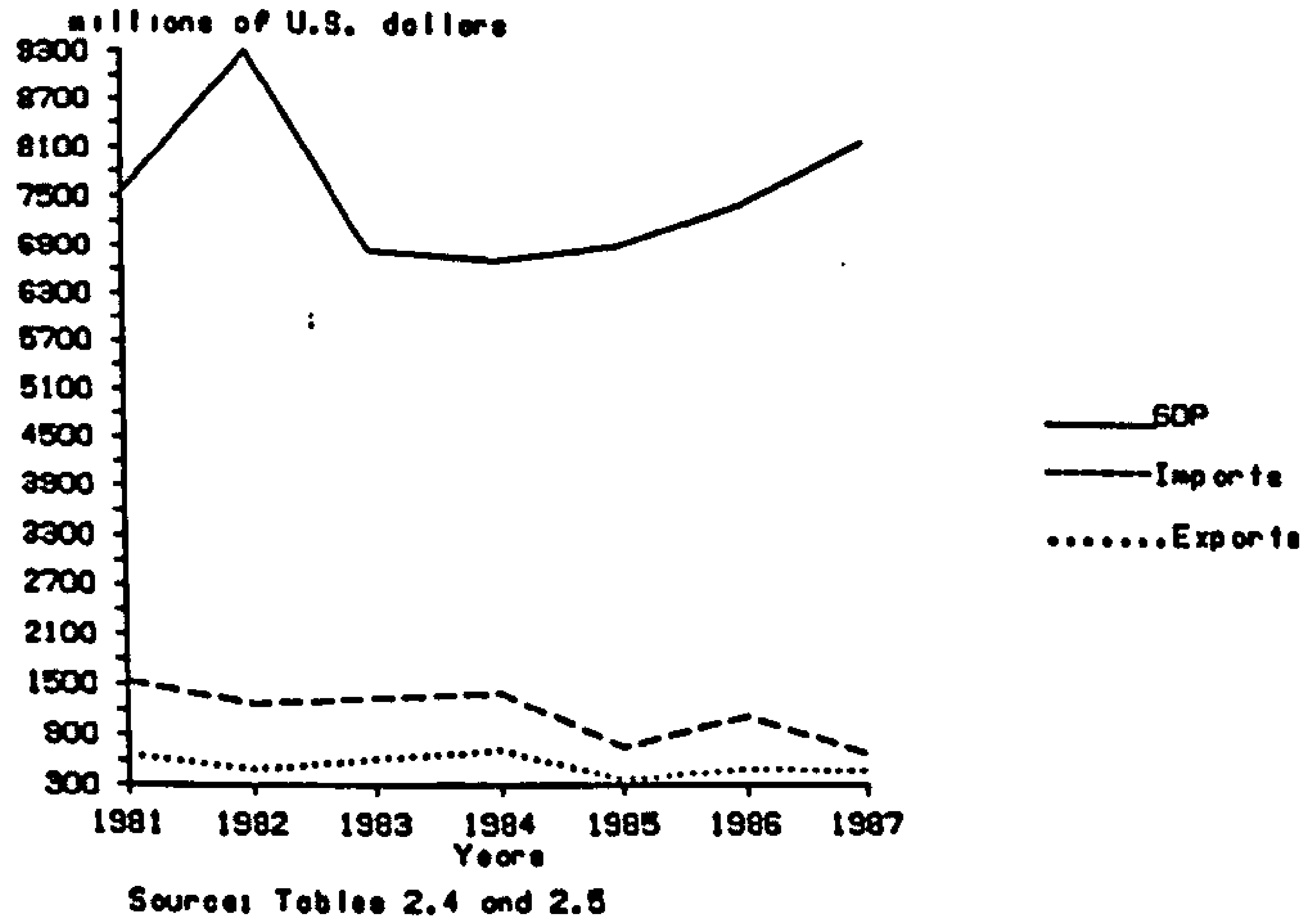
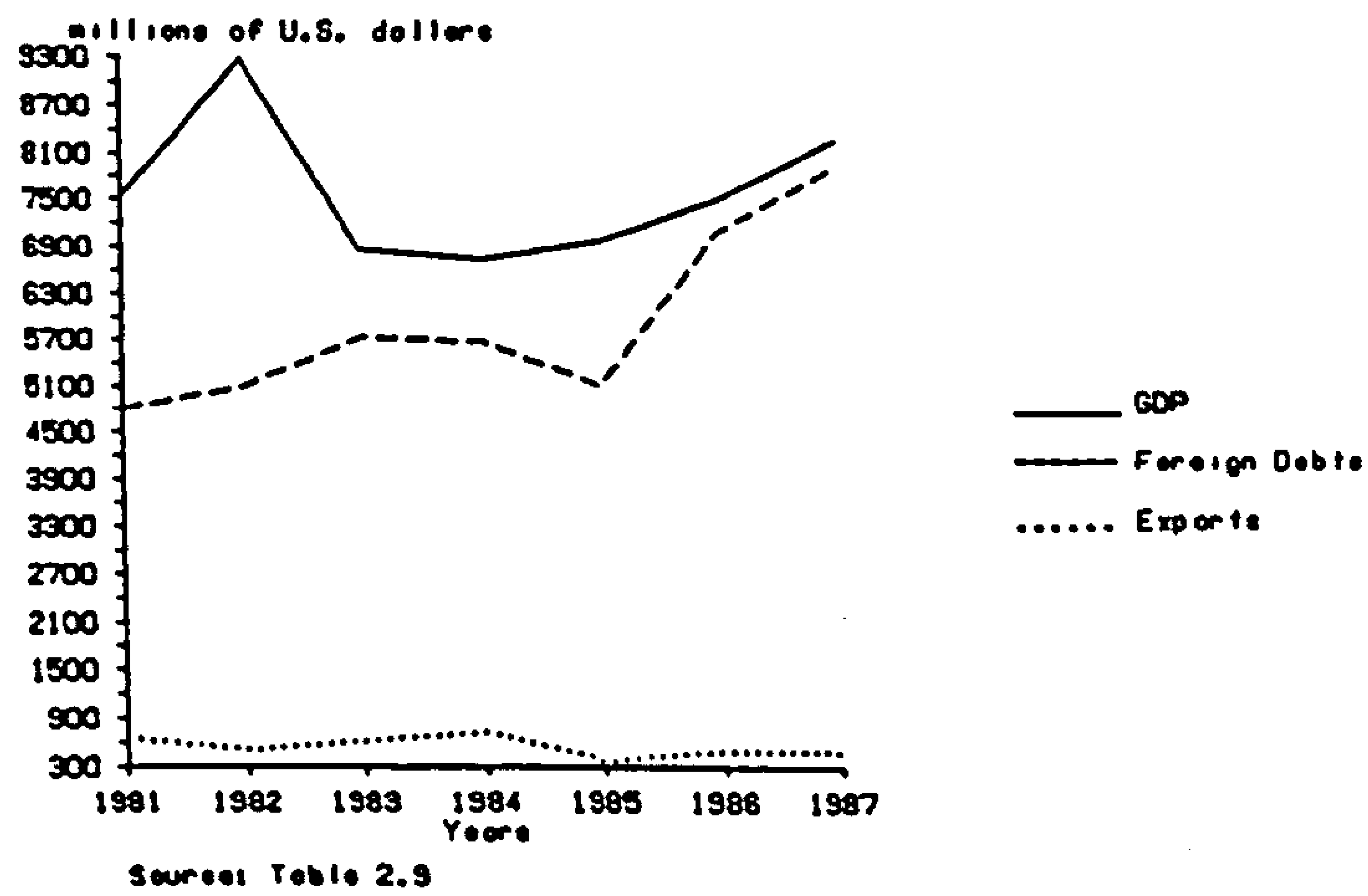


Fig.2.3 Relative Growth of Foreign Debts



2.1.8 Problems of Foreign Debt and Debt Services

In theory, foreign aid has always been controversial. The main criticism of foreign aid is that it is often badly administered so that its ability to promote development is severely reduced. In principle, those who object to aid generally do so from two distinct viewpoints: one school derives from dependancy theory, arguing that underdevelopment is not merely the absence of capital but it is the inadequate mobilization of domestic resources. Accordingly, foregin aids are regarded as reflecting the exploitation of the developing countries by the developed market economies, the main doners. The other school claims that aid inevitably expands the role of government, thus distorts market signals and finances investment that the private sector would better undertake if it was given the chance. (World Development Report, 1985, p.102).

In practice, however, the decision to borrow in the developing countries was not guided by a careful appraisal of the benefits and costs or limited by any of the two views considered earlier. For example, in the case of the Sudan during the last decade, much of the public borrowing was either unplanned or undertaken because of emergencies, miscalculation, and weak policies. Occasionally, political unrest also played an important role in the allocation of external debt, thus ignoring to balance the gains in resources against anticipated costs of debt services and debt repayments. In fact, not all public debt go to finance investment.

Beside the internal difficulties of managing foreign debt, external factors such as the rise in imports' prices, the rises in the costs of servicing debts, and high international interest rates also increasingly intensified the problems of accumulating foreign debts and eroded the debt servicing capacity. Another problem with foreign borrowing for a developing economy is that the influences of nondevelopmental motives and political interests of the doners often played a significant factor in the flows of foreign capital. The lenders, especially in the cases of bilateral agreements, usually require the recipient to purchase goods and services in the lender countries. The result, however, can be a lower quality of goods and services, often more expensive and less appropriate to the needs of the recipient.

As a result of such difficulties, the Sudan's external debts have increased to nearly US$ 8 billions in 1987. As a percentage of the total GDP, this amount accounts for approximately 96 percent. With such a sharp rise in the amounts of foreign debt, the cost of servicing debt also rose to high levels as a result of high interest rates and short maturities associated with most public debt, normally between 3 and 8 years including the grace period. In 1985, for example, the debt service, excluding interest arrears on the long term debt, reached about 18 percent of the total earnings from exports (see Table 2.9). According to the Economist Intelligence Unit (EIU), the long delayed arrears and interests arrears on the long term debt to the IMF alone had reached over one billion of United States dollars in 1986. As a result the Sudan failed to pay off its long delayed arrears and in consequence it was declared in 1986 ineligible for IMF borrowing (EIU, 1987). Today, the increasing public debt and debt service, however, stand as one of the most important problems facing the Sudanese government and potentially are also the most destabilising factors for the economy as well as for the future generations.

2.1.9 Domestic Inflationary Pressures

Another difficulty that the Sudanese economy has suffered from in recent years is the excessive inflationary pressures and the increasing demand for monetary expansion. The persistence of inflation is fuelled from a number of sources. The sharp increases in prices of oil and other essential inputs for production led to high costs of production and therefore resulted in a further increases in the prices of domestically produced goods. This in turn led to continuous demands by trade unions for more wages and salaries which again will feed back into further increases of production costs. The local cost of imports has also increased following devaluations during the period. Furthermore, there has been continous government deficit financing which led to extensive government borrowing from the domestic banking sector and to the gowth of advances to the private sector. Other distorting factor in the economy during the 1980s has been the chronic transport bottlenecks which contributed to price increases and to scarcities of basic consumer goods. However, the problems of spiralling prices and debt repayments remain the major causes of social and economic unrest in the country (Bank of Sudan, 1988).

Table 2.10: Trends of Consumer Prices and Monetary Growth

Years	1980	1981	1982	1983	1984	1985	1986	1987	1988
consumer price index	100.0	124.6	156.6	204.5	274.3	398.8	496.1	511.6	985.0
M1 (narrow money)	1097	1531	2091	2336	2764	4145	5849	7768	11218
M2 (M1+ quasi-money)	1264	1795	2534	3110	3719	6109	7813	10663	14164

Source: IMF, International Financial Statistics.

Note: M1 inculdes demand deposits and currency in circulation; quasi-money includes times savings and foreign currency deposits of resident sectors other than government; values of M1 and M2 in millions of Sudanese Pounds.

2.1.10 The IMF and Sudan's Stabilization Programmes

Since 1978 and throughout the eighties, the extent of the economic crisis forced the government to change its development policy in the direction of the IMF recommendations, which were conditional for the disbursements of its credits. Both monetary and fiscal policies underwent many changes and developments became oriented mainly towards the balance of payments reform and the promotion of export. The main policies prescribed by the IMF to rectify the economy included the devaluation of the Sudanese pound, the control of banks' credits, the use of flexible exchange rates, the abolition of consumer subsidies and the curbing of government expenditures; devaluation was the step most favoured by the IMF. The principal aim of the devaluation policy was to promote exports by increasing the nominal prices of exports and, as a corollary, the nominal incomes of the producers (farmers). It was also proposed to reduce imports and relax quantitative restrictions as foreign exchanges will become more expensive under the devaluation, thus allowing market forces to determine the level of imports. The flexible exchange rate policy was also intended to expand foreign trade and to assure the competitiveness of potential exports (Ali, 1985, p. 31)

However, although some progress has been made in expanding exports in 1983 and 1984, as a result of the IMF devaluation policy, this has been offset by an increase in imports and a deterioration in the terms of trade, as well as the high degree of uncertainity in the world under the floating exchange rate regime which followed the collapse of the fixed exchange rate in the early seventies. The main criticism of the IMF policy, namely the devaluation programme, by the Sudanese, came from the following points: firstly, the elasticity of demand for exports is not high for some commodities and so the policy might not give incentives to producers to increase production. In the traditional sector, however, the low levels of education and the limitation of the monetized sector are not likely to bring about a supply response from farmers who followed traditional pattern of production. Secondly, with regard to the effect of the devaluation on imports, it is argued that the demand for consumer and intermediate goods, notably petroleum and capital goods, is highly inelastic. Moreover, as import policy in the Sudan is centrally controlled, therefore a reduction in imports which the devaluation is supposed to bring about can be equally achived by an administrative decision. Last but not least, the final criticism of the devaluation is that it will increase the cost of living, mainly for the urban population who are not envolved in export activities, and therefore may lead to political instabilty and social unrest (Ali, 1985, pp. 37-40).

2.1.11 Future Prospects

To bring the Sudanese economy back to a self-sustained basis and bridge the problems of external finance gaps emphasis should be directed to improving its domestic sources of finance and developing the existing administrative capacity. Increases in the shares of domestic sources to finance development and reduce the heavy reliance on foreign borrowing require more attention to policies which increase national savings and promote them. These include the reform of the present tax policy through modifications of its rates, broadening its coverage, and improving its administration. Economic incentives can also be introduced to encourage private savings and offset government's increased demands. Foreign savings, however, can also be improved through the rehabilitation of the existing agricultural schemes to expand cash crops and exports as well as to introduce more food crops to reduce the reliance on imports of foodstuff. Discussions of Sudan's potential taxes will be the object the next section and the remaining chapters.

2.2 The Sudan Tax Policy

2.2.1 The Development of Tax Policy

In Sudan, since per capita income and domestic savings are relatively very low, taxes are the only possible source of capital with which the government is able to finance its current expenditures as well as to co-ordinate savings and investment decisions through the changing of tax rates on capital goods or through tax relief and exemptions. The tax policy in the country, however, witnessed many changes and developments according to changes in the political and economic structures. Prior to the country's independence in 1956, the tax policy was guided mainly by the need to raise just enough revenues to finance ordinary expenditures required by the government rather than being guided by resource mobilization, economic growth, economic stability, or equity considerations, which tend to influence the tax policy at the present time. Before 1956, since it was thought that taxes might lead to social crisis and political unrest, they were limited therefore to a few traditional levies on land, livestock and agricultural produce. Income tax was non-existent and the system depended on the rather haphazard collection of a few levies on property (Sulaiman, 1978).

With the emergence of the first national rule in 1956, those who were influencing public policy and taxation structure in the nation began to address themselves to economic and social aspirations. The achievement of a high and sustained rate of economic growth and also a reasonable standard of living and social justice have continuously become the leading priorities of the fiscal policy. The post-independence period has generally been characterized by the execution of various development plans; the Ten-Year Plan (1958 - 1968); the Five-Year Plan (1970 -

1975); and later the Six-Year Plan (1978 - 1983). These plans have relied on taxation as the most viable mean through which the government can raise revenues, especially in a country where there is inadequate public and private savings to finance investment and promote development (Nimeri, 1978).

The main actions that have been taken by the government to strengthen the tax structure and to bridge the gap between revenue projected in the Ten-Year Plan, involved the introduction of new taxes and the revision of the old ones. In 1964, the government, for the first time, introduced taxes on personal income and on a rental income. The tax reform also involved the amendment of business profits tax policy in order to promote industrial investment and to provide generous concessions for the private sector to participate in the industrialization programmes proposed by the plan. To protect infant industry and save foreign exchange the government adopted an import substitution policy to encourage domestic production (Sulaiman, 1975, p. 38).

During the Five-Year Plan (1970-1975), the policy of taxation continued to be guided by the objectives of achieving a high and sustained rate of economic growth, a reasonable standard of living, and an equitable redistribution of income and services. To meet with such goals, the reliance on taxation increased so that it covered new sources such as a capital gains tax in 1974. Efforts to provide tax incentives for investment in the industrial sector also witnessed changes and progress. These incentives covered the exemptions for industrial production from the business profits tax, custom duties, and excises taxes for a period of five years, although in some cases this period may be extended to another five year. Other fiscal incentives adopted during the course of that plan included the deduction of the depreciation from revenue subject to business profits tax and the lowering of the rate of customs duties on essential inputs imported for industrial production, e.g. spare parts.

During the Six-Year Plan (1978-1984) and throughout the last decade, the tax policy in the Sudan witnessed more changes and development in granting concessions and broadening the tax base. To increase public savings, the government introduced in 1981 taxes on sales and on incomes of the Sudanese nationals working abroad (expatriates). Regarding the policy of granting tax incentives, the government's strategy, this time, changed to allow investment in agriculture and economic services such as transportation which received special concession and favourable incentives in the recent development plans. For the Sudanese working abroad, the main incentives included the granting of a piece of land for agricultural production as well as for housing. To reduce evasion and increase compliance of the taxes on the Sudanese working abroad, the government linked the payment of the tax directly to the renewal of the passort, which should be renewed every two years. (Ministry of Finance, 1987).

2.2.2 Prominent Features of the Sudan Tax Policy

The tax system of the Sudan displays many of the features common to low income economies, the most obvious being the excessive reliance on indirect taxes which originate in foreign trade activities. More than 70 percent of the total tax revenues come from indirect taxes, out of which the contribution of import duties alone accounts for about 60 percent. Direct taxes, on the other hand contributed very little to the total tax revenue; about 22 percent on average. The largest share towards direct taxes in the Sudan came from business profits tax of large enterprises, which account on average for more than 60 percent of the direct tax revenues, and personal income taxation on wages and salaries of those in the public sector, whose share at present accounts for about 15 percent. Other direct taxes brought recently into the tax structure such as capital gains tax, sales taxes and taxes on the Sudanese working abroad as well as rental income tax, also make up a considerable portion of the direct tax revenue.

Table 2.11: The Sudanese Tax Structure

(in millions of Sudanese Pounds)

Sources	1983/84		1984/85		1985/86		1986/87		1987/88	
Sources	value	%	value	%	value	%	value	%	value	%
A- Direct Taxes	273	24	302	24	319	19	460	26	625	21
-personal income	48	4	22	2	24	1	70	4	100	3
-business profits	177	15	204	16	220	14	264	15	344	12
-others*	48	4	76	6	75	4	126	7	181	6
B- Indirect Taxes	886	76	968	76	1360	81	1308	74	2344	79
-excise duties	148	13	170	13	223	13	277	16	414	14
-foreign trade	738	63	798	63	1137	68	1028	58	1930	65
(import duties)	717	61	779	62	1103	66	966	55	1740	59
(export duties)	21	2	19	1	34	2	61	3	184	6
total tax revenue	1159	100	1270	100	1806	100	1765	100	2979	100

Source: Bank of Sudan, Annual Reports, 1983-88.

Note: * include capital gains, rental income and defence tax, sales tax, professional income, and taxes on expatriates; Zakah is not included.

As Table 2.11 reveals, the Sudanese tax structure has been dominated by indirect levies on commodities, with taxes on foreign trade accounting for the bulk of the total revenues. These levies comprise on average more than 62 percent of the total revenues. Revenues derived from indirect taxation of consumption of domestically produced goods and services, however, are relatively small. Excise and consumption taxes bring in about 14 percent of total central government revenue, and over 20 percent of the tax revenues. On the other hand, direct taxes on income and profits raise much lower contributions to government revenue. During the 1980s, the contribution of these taxes account on average for no more than 22 percent of the total tax revenue, out of which about 14 percent originate from business profits and only about 4 percent from personal income. In the Sudan, however, most direct taxes on personal income are collected from within the public sector which employs more than 80 percent of the labour force (Department of Taxation, 1987). The low contribution of the direct taxes reflects both the difficulty of collecting taxes from the private sector of the economy and the narrow coverage of personal income taxes first introduced in 1964. As regards the contribution of business profits tax to the total tax revenues, substantial shares of revenues are generated from profits of public enterprises.

However, non-tax revenue in the Sudan also constitutes one of the more important sources of the central government revenues, accounting on average for more than 20 percent of the total revenue over the past decade. These sources include profits from government participation in modern agricultural schemes and some industries, and also cover fees, stamps and charges applied to different public services. Revenues from taxes on the profits which public enterprises make are generally very low since they are determined mainly through price changes, which are directly under the control of the government. Normal tax rates on public enterprises in the Sudan are usually also relatively low compared with those applied to private enterprises, thus reducing the total tax yield. The development of the contributions of the non-tax revenue to the central government revenue during the eighties is indicated by Table 2.12 below:

Table 2.12: Contribution of Non-Tax Revenue to Government Revenue

(in millions of Sudanese Pounds)

Sources	1983/84		1984/85		1985/86		1986/87		1987/88	
Sources	value	%	value	%	value	%	value	%	value	%
Tax Revenue	1159	79	1270	86	1679	83	1768	64	2969	74
Non-Tax Revenue	310	21	215	14	331	17	974	36	1048	26
Total Revenue	1469	100	1485	100	2010	100	2742	100	4017	100

Source: Ministry of Finance.

Note: non-tax revenue covers fees, state pension contribution, sales of public land, profits from public enterprises, stamp duties and exchange taxes.

- **The Sudan's Tax Level**

In Sudan, the proportion of the total tax revenues to the GDP is generally very low. The contribution as a percentage of the country's GDP is estimated on average to be equal to about 8.6 percent of the GDP over the period from 1983/84 to 1987/88 (see Table 2.13). This ratio, however, is very low, particularly when compared with those ratios obtained from other developing economies during that period, which, according to the IMF tables, accounted on average for about 18 percent (World Development Reports, 1985-1988). The low level of per capita income in Sudan is admittedly one of the factors responsible for the low contribution of the tax revenue in the GDP. Other factors affecting the performance of the collected tax revenues in the national income are: the limited size of the monetized sector and the low demand for money in the traditional agricultural sector, which made the contribution of the tax revenue, notably direct tax revenue, very low and even caused it to decrease. Also, the absence of an adequate system of reporting and auditing affected negatively the contribution of the direct taxes to the GDP. Taxes on foreign trade, on the other hand, also showed a downward trend in their contributions to the GDP, which is partly related to the low growth of exports over that period. It also partly resulted from the government policy to reduce the volume of imports by raising the rate of imports duties as well as by the imposition of the devaluation policy, which led to a sharp increase in the value of imports, thus decreasing their volumes (Ali, 1985).

Table 2.13: Sudan's Tax Level as a Percentage of the GDP

(in millions of Sudanese Pounds)

Year	GDP	Tax Revenue				Tax Revenue	
		direct	%	indirect	%	total	%
1983/4	10404	273	2.6	886	8.5	1159	11.1
1984/5	12893	302	2.3	968	7.5	1270	9.9
1985/6	20676	319	1.5	1360	6.6	1679	8.1
1986/7	29936	460	1.5	1308	4.4	1768	5.9
1987/8	37416	625	1.7	2344	6.3	2969	7.9

Source: GDP's values are obtained from the Bank of Sudan, 28th and 29th annual reports; the figures about taxes are taken from Table 2.11.

2.2.3 Composition of Direct Taxes

Direct taxes in the Sudan play a very minor role in the generation of total government revenues. Until to the late 1960s, the contribution of revenues from direct taxes did not exceed 10 percent of the central government revenues and 20 percent of the total tax receipts. The main contributors were business profit tax and some traditional levies such as taxes on land, date trees and animals and also taxes on agricultural produce *ushurs*. These traditional levies were the main sources of revenue from people living in the subsistence sector, which is the dominant sector in the national economy.

Modern direct taxes in the Sudan, however, began to be introduced increasingly after the nation's independence in 1956. These taxes cover personal income tax and rental income tax, both introduced in 1964. Although business profits taxes were originally introduced in 1913, their development as a major source of revenue came only after 1960, when the country began to undertake many development programmes. Direct taxes in the Sudan are generally levied at progressive rates. The coverage of the tax base includes all earnings originating from individuals, public and private companies, as well as from partnerships and societies. At present, the various sources covered by direct taxation include a business profits tax, rental income tax, capital gains tax and surtaxes such as a development tax and a defense tax.

(i) Business Profits Tax

This tax is normally levied both on the net profits of companies and on the earnings of individuals in various trades and professions. It is by far the major direct tax in the Sudan. Its contribution as a proportion of the total tax revenue accounted, during the 1980s, for about 15 percent of tax revenue, which is the equivalent of approximately 60 percent of the total revenues from direct taxation. The assessment of the tax is based on the income of the previous year. The business profits tax can be paid either, in full, once a year or in two instalments. Both public enterprises and private companies are liable to this tax policy, but the marginal rates often differ between public companies and private companies.

The collection of the tax is mainly the responsibilty of the Taxation Department and the assessment is based on the audited accounts, in the case of taxpayers who produce certified accounts, and on the filling of a declaration form when the taxpayers do not keep audit accounts. The tax is generally levied at progressive rates directly related to the characteristics of the taxpayer. The rates of the tax for individual payers vary between 10 percent at relatively low levels of profits and 60 percent at relatively high levels of profits, the same applying to rental incomes. Under the business profits tax policy, however, the government occasionally provides various kinds of exemptions as are necessary in order to encourage production and to serve growth objectives. These exemptions include a tax-holiday, accelerated depreciation and loss carry-over provisions (Ministry of Finance, 1987).

(ii) Personal Income Tax

Personal income tax in the Sudan is usually related to income from dependent work such as wages, salaries, leave, sick pay, fees, bonuses and certain benefits in kind. The tax was introduced in 1964 to raise more revenues and also as a measure of equity. The tax rates are progressive and the tax base covers almost the entire income of government employees, all of whom are subject to the personal income policy. The tax is deducted under the PAYE system, where tax receipts are collected as income is earned. The tax is paid monthly, but employers who deduct relatively small amounts from the taxpayers may, for the sake of administrative simplicity, make their payments once a year. There are many problems associated with the collection of the personal income tax, e.g. how are taxpayers to be identified in small enterprises where there is a tendency to under report income. Also some workers hold more than one job, and this leads to some problems in the assessment of the tax.

Personal income, according to personal income tax policy, consists of moneys gained from any employment or services rendered; this covers both remuneration in money and benefits in kind under a contract of employment. The exemption limit of personal incomes was very high; 1350 Sudanese pounds, when the bill was first introduced in 1964, but it was lowered to 300 Sudanese pounds in 1967 and then to 200 Sudanese pounds in 1969. The reduction of the exemption limits was guided by the need to increase government revenues and also by equity considerations so as to bring into the tax structure a larger number of those relatively well-off individuals who benefited from public sector facilities. However, recently, the exemption limit was raised to 3000 Sudanese Pounds as a result of an increase in consumer prices and wages and salaries. This exemption limit was based on the estimates of the basic needs rather than being a compensation for inflation (Department of Taxation, 1986).

The rates of personal income tax are generally progressive, varying between 10 percent at relatively low income levels and 60 percent at higher levels of income. According to personal income tax policy, each level of income is to be treated seperately. The policy also distinguished between married and unmarried individuals, but allowed no personal deductions for the number of dependents or for non-residents. It must be pointed out here that, in the Sudan, more than 80 percent of the personal income tax yield originates from public sector jobs. Private sector jobs, on the other hand, contribute very little to the total revenue yields from personal income taxes (Nimeri, 1974).

(iii) Rental Income Tax

This tax, introduced in 1964, is levied on the actual income arising from the ownership or rental of property excluding land and agricultural property. The rental income is usually subject to some deductions. These deductions include local rates, the interest paid, and 15 percent of rental income to cover maintenance and depreciation. The major problem of the rental income tax is evasion, which negatively affects its contribution to the direct tax revenues. The possibility of collusion between rentors and rentees makes it difficult to eliminate tax evasion. Another problem with the rental income tax arises from the system of registration: rental contracts are not required to be registered with the land registrar. This tax, however, plays a very minor role in contributing to the total revenues from direct taxes, accounting only for about 1 percent during the second half of 1980s (Ministry of Finance, 1987).

(iv) Capital gains tax

This was first introduced in 1974 and applies to gains derived from the sale of urban land and buildings which have been held for more than three years. The gain is calculated by deducting from the sale the purchase price including costs of improvements, if any, and selling costs. Its contribution to the total taxes from income sources is not significant and it accounts on average for about 3 percent over the last decade. The rate of the tax is a progressive one and varies between 5 percent and 25 percent on gains that exceed certain limits. To overcome administrative difficulties and shoratage of information, the exemption limit was fixed in 1974 at a very high level of 30000 Sudanese pounds, but is subject to changes as necessary to meet with the aims of the taxation policy (Department of Taxation, 1983).

(v) Taxes on Sales and on Sudanese Working Abroad

A tax on sales in the Sudan was first introduced in 1981 and it covers sales of furniture, international air tickets and jewelery, as well as service charges of hotels, clubs, and resturants. Unlike excise taxes, which usually take place when goods are produced, this tax takes place only when they are sold. During the 1980s the contribution of taxes on sales to direct tax revenue accounted on average for about 8 percent. Taxes on the Sudanese working abroad were also introduced in 1981 and they apply, on an annual basis, to every Sudanese working abroad. These taxes are related directly to categories of immigrants rather than to their earnings. However, although the contribution of this source to the direct tax revenues is reported to be increasing at the recent time; about 10 percent, it is still below the expectations if compared with the increasing numbers of Sudanese working abroad during the last ten years, which are estimated at more than one million (Ministry of Finance, 1988).

(vi) Temporary Surtaxes

In addition to the basic taxes on income (described above), income in the Sudan has also been subjected to temporary taxes, the defence tax is one of these taxes. It was introduced in 1971 and levied on a flat rate to meet some of the defence expenses. This tax is no longer in existence although there is no major changes in the defence policy. In 1976, in response to the increasing development expenditure, the government introduced the development tax. This tax is still in operation and is levied on all taxable income from business profits and rentals. The rate of the development tax for individual taxpayers is 5 percent for incomes over 1000 Sudanese pounds. For other taxpayers, e.g. for companies, the tax is levied at a flat rate of 5 percent on total income. However, the contribution of the temporary taxes to the total tax revenue in the Sudan is not a significant one. For example, the maximum share of the defence tax has not exceeded 1.2 percent of the total tax revenues. For the development tax the maximum was 0.23 percent of the total tax revenue throughout the seventies and the early eighties (IMF, 1981, p. 10).

Generally, direct taxes in the Sudan have a minor role to play in the generation of total government revenues. Although the share of direct taxation has increased steadily, the low ratio of direct taxes in total government receipts is attributable to the lack of a proper accounts system and to deficiencies in the administrative machinery. In the Sudan, where the monetized sector is very limited, the exclusion of wealth in kind from the taxation policies has negatively affected the contribution of direct taxes to the total revenues from taxation (see Table 2.11).

2.2.4 Indirect Taxes

In the Sudan, since direct taxes were not been sufficient to provide the revenue required to finance the increasingly large public expenditure, indirect taxes have become the leading factor in the generation of government revenues and in the reform of the taxation policies. They account on average for more than 70 percent of the total tax revenues and about 60 percent of the total government revenues (see Table 2.11). These taxes are aimed both at raising domestic savings to meet the financial obligations of the development programmes, and also at addressing the problems of income distribution and improvement of social justice. They are also justified on the grounds that they are administratively more feasible and are politically acceptable. These taxes are paid voluntarily by the taxpayers when they buy goods from the market.

The distinction between direct and indirect taxes in the Sudan is generally based on tax burden shifting, administration responsibility, and the characteristics of the tax base. With respect to the first criterion, the shifting of the tax burden, a tax is considered indirect if the person who pays it is not bearing the burden of it directly. For example, import taxes do not fall directly on the importer but totally fall on the ultimate consumers who pay the nominal values of commodities. Similarly, personal income taxes and business profits taxes are classified as direct taxes according to the same criterion, since the burden of such taxes is borne directly by the tax payers. As regards administration responsibility, the collection of direct taxes in Sudan is generally controlled by the tax department, whereas indirect taxes are usually controlled by the department of customs and excise duties. The third criterion used to classify taxes in the Sudan is related to the tax base. The tax base for indirect taxes is generally considered unstable and subject to temporary changes, whereas the tax base for direct taxes is considered more stable and strongly linked to incomes and wealth (Sulaiman, 1978, pp. 41-43).

One must bear in mind that the structure of indirect tax in the Sudan is always influenced by the high share of import duties, which contribute on average nearly 80 percent of the total revenues from indirect taxes. Next comes excise duties on domestic production, which account for about 18 percent on average, and export taxes and royalties on specific commodities, which account for the remaining shares (see Table 2.11). In this respect, the Sudan does not differ from many other developing economies. The heavy dependence on indirect taxes in the developing economies is due mainly to the fact that they are easy to administer and more politically feasible than direct taxes (IMF, 1981, p. 7). As a proportion of GDP, indirect taxes in the Sudan amounted on average to about 7 percent over the period from 1983/4 to 1987/8. Out of indirect taxes, taxes on foreign trade alone accounted for about 6 percent of the GDP over the period under consideration. Taxes on production and consumption, on the other hand, accounted on average for only about 1 percent of the GDP values. Table 2.14 below shows the changes in the level of indirect taxes over the period from 1983/84 to 1987/88.

Table 2.14: Indirect Taxes as Percentages of GDP

Sources	1983/84		1984/85		1985/86		1986/87		1987/88	
	values	%	values	%	values	%	values	%	values	%
foreign trade taxes	738	7.1%	798	6.2%	1137	5.5%	1028	3.4%	1930	5.2%
- import duties	717	6.9%	779	6.0%	1103	5.3%	966	3.2%	1746	4.7%
- export taxes	21	0.2%	19	0.2%	34	0.2%	61	0.2%	184	0.5%
excise duties	148	1.4%	170	1.3%	223	1.1%	277	0.9%	414	1.1%
Total	886	8.5%	968	7.5%	1360	6.6%	1308	4.4%	2344	6.3%

Source: Bank of Sudan, 28th and 29th Annual Reports.

Note: values in millions of Sudanese Pounds; GDP at current prices.

- **Taxes on Foreign Trade**

These taxes play an important role in government's revenue in the Sudan. The foreign sector in a country like the Sudan, however, is very suitable for taxation, not only because the Sudan is developing rapidly and is not highly monetized but also because of the ease of collection and the political possiblities of these taxes (Goode, 1984). Taxes on foreign trade consist of taxes on imports, taxes on exports, and exchange taxes.

The policy of import taxes in the Sudan has been guided primarily by revenue objective. Other considerations, such as the balance of payments and the protection of the domestic production, have also had a bearing on the policy. They are also used to provide an adequate level of protection to local industry, and thus to enable it to compete with imported products. The rates of taxes on imports are ad-valorem i.e. they relate to the actual value of imports. The tax rates usually starts from a rate of 5 percent on essential inputs for agricultural production and consumer goods to a rate of 900 percent on luxury goods. Some items such as milk powder for infants, medicine and agricultural machinery are currently exempted from import taxes. The contribution of import taxes to the total revenue from idirect taxes accounts at present for about 80 percent and for about 60 percent as with regard to the total tax revenue. As a proportion of the GDP, taxes on imports accounted on average for about 5 percent over the period 1983/4-1987/8 (see Tables 2.11 and 2.14).

Taxation on exports, however, are far less important than import duties in their contribution to the total revenue. During the period 1983/4-1987/8, the contribution of these levies has accounted, on average, for about only 4 percent of the total revenues from indirect taxes and to less than 1 percent of the GDP. The rates of taxes on exports are generally low and they are usually applied on an ad-valorem basis (Department of Taxation, 1983).

In the long-run, however, the adequacy of the contribution of the foreign trade sector to the total revenue yield cannot be taken for granted since world trade is subjected to fluctuations and high degrees of uncertainty. Also, the international markets for raw materials and the increasing tendency of groups of nations to club together do not favour agricultural producers or motivate them to expand their production capacities. Furthermore, the development programmes in the Sudan, by encouraging a policy of import substitution, might result in a reduction of the volume of imports and, in turn, the revenue yields. Recently, the country's move towards self-sufficiency of consumer goods could also lead to a cut in imports and, consequently, to a reduction in revenues originating in the foreign sector. It is worth noting that the IMF package, by encouraging the liberalization policy of trade, will also negatively affect the revenue yield from that source since many custom duties will either be removed or reduced to a minimum.

- **Taxes on Domestic Production and Consumption**

These taxes cover both excise duties on domestically produced goods and consumption taxes on certain imported commodities. They constitute the second major source of revenue from the indirect taxes with an average contribution amounting to about 18 percent over the period 1983/4-1987/8. In Sudan, excise duties are predominantly levied at specific rates for the major revenue producing commodities and they are directly paid by the manufacturer at the point of production. Ad-valorem rates are also applied to certain commodites, such as footwear, electerical appliances, cotton textiles and some petroluem products. The administration of these taxes, however, is directly under the responsibilty of the Excise and Custom Department.

2.2.5 Traditional Wealth and Property Taxes

These levies include various taxes on buildings, land, and other property as well as taxes on agricultural production and animal taxes. These sources, however, were the most viable taxable capacities in the country during the early periods which accounted, until the early 1940s, for about 12 percent of the total government revenues (see Table 2.15). Many of the traditional taxes are based either on the *Ottoman* and the *Mahadist* systems of taxation, which followed to a great extent *Islamic* patterns of taxation, or were borrowed from the British system of the local rates. The practical development of these levies has followed the issuance of a series of ordinances listed below *:

(i) The Taxation of Land & Date Trees Ordinance (1899);

(ii) The House Tax Ordinance (1899);

(iii) The Taxation of Animal Ordinance (1901);

(iv) The Tribute Ordinance (1901);

(v) The Taxation of Rainlands (*Ushur*) Ordinance (1924);

(vi) The Hut and Poll Tax Ordinance (1925); and

(vii) The Traders licence and Taxation of Profits Ordinance (1930).

*** details of the traditional taxes and their development are found in "The Laws of the Sudan", Vol.3, pp.27-72.**

Until 1951, when these taxes were transferred from the central government to the local authorities, the role of the traditional taxes in the financing of government expenditures was quite an important one. Taxes on property such as houses and land were levied on the capital values and they were directly paid by the owner. In the case of taxes on houses tenants might be required to pay the tax and then deduct the amount from the rental payments. Taxes on agricultural land were used to be levied at specific rates per feddan or a proportion of the crops produced, e.g. the *Ushur* (one tenth) which was levied on the output of rainfed lands. As Table 2.15 shows, the contribution of these taxes in the total revenues is estimated on average to about 9 percent over the period 1941-1950. After 1951, as a result of the constitutional reform which brought local government into existence, the traditional taxes were transferred to local government, since which time no official records or systematic data have been available about their contribution to goverment receipts or about their development.

The primary aim of the traditional taxes, however, was to raise revenues from the subsistence agricultural sector, the largest in the economy. They were also intended to reach people of low incomes and to tap on incomes in kind which did not participate in the monetized sector. In this respect, the traditional taxes have succeeded in making the small subsistence farmers and animal keepers contribute to the cost of economic development and thus increase the people's awareness of government services. The rates of traditional taxes differ from one ordinance to another. In the case of the lands, animals and date trees ordinances, the rates were fixed, while in the case of agricultural produce they were proportional. No progressive rates had been used in the imposition of traditional taxes.

From the economic point of view, the traditional taxes were justifiable on

Table 2.15: The Sudanese Tax Structure during the period 1941-50
(in 000's Sudanese Pounds)

Sources	1941	42	43	44	45	46	47	48	49	50
Traditional Taxes	626.0	699.0	753.6	737.3	754.6	807.3	807.9	860.1	879.0	1588.4
percentage	11.6%	12.1%	12.9%	11.2%	9.7%	9.7%	8.0%	5.5%	4.6%	3.9%
Customs & Royalities*	1534.1	1357.2	1434.7	1937.0	2278.7	3088.4	3642.4	5645.2	7373.6	18510.3
percentage	28.5%	23.3%	24.5%	29.4%	29.3%	37.3%	35.9%	36.1%	38.4%	45.5%
Departments@	886.3	939.3	1017.2	1142.9	1523.9	1498.2	1833.1	2198.7	2870.3	5398.2
percentage	16.5%	16.2%	17.3%	17.4%	19.6%	18.1%	18.1%	14.0%	15.0%	13.2%
Railways	495.0	625.0	495.0	595.0	595.0	595.0	450.0	400.0	300.0	450.0
percentage	9.3%	10.7%	8.4%	9.0%	7.7%	7.2	4.4%	2.6%	1.6%	1.1%
Irrigation(Gezira)	1212.7	1542.5	1335.3	1261.0	1565.3	1286.0	2228.8	5227.1	5960.7	12692.0
percentage	22.5%	26.5%	22.8%	19.2%	20.2%	15.5%	22.0%	33.4%	31.1%	31.2%
Others	625.0	651.1	826.1	905.6	1045.6	1014.1	1179.3	1319.7	1788.5	2086.9
percentage	11.6%	11.2%	14.1%	13.8%	13.5%	12.2%	11.6%	8.4%	9.3%	5.1%
Total	5379.1	5814.1	5861.9	6578.8	7763.1	8289.0	10141.5	15650.8	19172.1	40725.8
percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Sudan Government, Reports on Administration.
Note: See Appendices for more details of the taxation structure in the early periods.

grounds of efficiency since they were imposed at relatively low rates, which are unlikely to distort production. Another economic advantage of such low rates policy is that the tax evasion and avoidance did not been arise as a serious problem as they would been had high rates been imposed. From the point of view of equity these taxes were suitable since their coverage of the tax base included almost all taxable capacities in the economy. One criticism of the imposition of the traditional taxes conserns inefficiency in assessment and collection, as well as the rigidty of legislation which has not been developed since they were first introduced.

The development of these traditional levies in this study, however, shall be considered later in our discussion on the implementation of the *Zakah* policy in the Sudan, which covers to a large extent the base of the traditional taxes. It is interesting to note here that in the Sudan the role of traditional taxation can hardly be ignored in economic development programmes, or indeed in any plan to reform the structure of taxation, especially if we beared in mind that about 80 percent of the country's economically active population are engaged in agricultural activities. It also worth mentioning here that Lewis, in his model to develop the so called less developed economies, emphasized more on utilizing the surplus resources in traditional agricultural sectors (Lewis, 1984). Also many countries in Asia and Eastern Europe have depended in their experience of economic development on taxing traditional agriculture by either setting prices and forcing delivery of farmers' agricultural produce as in the Rusian case, or by adopting heavy taxes on land as in the Japanese case (Holzman, 1955).

2.2.6 The Economic Effects of Tax Revenues

The composition of tax revenues throughout the eighties continued to reflect the relative importance of indirect taxes as compared with direct taxes. However, this indicates the limitation of the monetized sector, and in turn, the narrow tax base for income taxation. In this respect, the Sudan exhibits features similar to those of low income economies which rely on commodity taxation, especially taxes on imports and excise duties on locally produced goods. The elasticity of the tax revenues to the gross domestic product is generally very low. As has been estimated in Table 2.16, the responses of the total tax revenues to the GDP have revealed an average degree of elasticity equal to about 0.94 over the period 1983/84-1987/88. The low elasticity of the Sudanese tax system in the present time is highly influenced by the low contributions of direct taxes, notably personal income taxes, and the poor performance of taxes on exports and domestic production, as well as the lack of administration facilties such as the availability of adequate training and equipment.

The contribution of the tax revenues to current government expenditure is relatively poor. According to the estimates in Table 2.17, the total revenue yield shows an inverse relationship with respect to the growth of ordinary government expenditures. The total deficit, however, gradually increased from 290 million Sudanese Pounds in 1983/84 to 655, 1558, 2492 and, 2263 million in 1984/85, 1985/86, 1986/87 and 1987/88 respectively. In relative terms, the rate of the coverage of the tax revenue over the total government expenditures decreased from 79.9 percent in 1983/84 to 41.5 percent in 1986/87, only to pull back to 56.7 percent in 1987/88 as a result of the government policy to cut down the rate of growth in government spending (Department of Taxation, 1982).

Generally, the contribution of tax system to the GDP in the Sudan is relatively low. However, for the country's tax level and tax elasticity to raised and

Table 2.16: The Elasticity of Sudan's Tax Revenues

(in million of the Sudanese Pounds)

Items	GDP	Tax revenues	changes in GDP	changes in tax revenues	tax elasticity
1983/84	10404	1159	–	–	–
1984/85	12893	1270	23.9%	9.6%	0.40
1985/86	20676	1679	60.4%	32.2%	0.53
1986/87	29936	1768	44.8%	5.3%	0.12
1987/88	37416	2969	25.0%	67.9%	2.72

Sources: Bank of Sudan 28th and 29th annual reports, and the Economic Survey, 1987/88 Annual Report.

Note: tax elasticity=% changes in tax revenues/% changes in the GDP.

Table 2.17: Tax Revenues' Contributions to Government Expenditures

(in million of the Sudanese Pounds)

YEAR	Tax Revenues	Government Expenditures	Deficit	Rate of Coverage
1983/84	1159	1449	290	79.9%
1984/85	1270	1925	655	65.9%
1985/86	1679	3237	1558	51.8%
1986/87	1768	4260	2492	41.5%
1987/88	2969	5232	2263	56.7%

Sources: The Economic Survey 1987/88 Annual Report.

improved, taxes on income and profits should be strengthened by introducing measures which increase compliance and reduce the tendancy towards tax evasion and avoidance. For example, penalties on tax evadors should be increased and rates of inflation might also be considered in the case of tax arrears. The tax base of direct taxation could also be broadened to increase the share of revenues from rental income, capital gains and taxes on professional income. The collection procedures of taxes on profits also need to be improved and strengthened by avoiding unnecessary tax exemptions by forcing taxpayers to keep audited accounts and systematic records. These objectives, however, require also the development of the tax organ and the promotion of its staff through offering more training facilities, providing modern techniques and equipment, and the setting up of effective statistical units. Taxes on domestic production also need to be strengthened and proper inspection of manufacturing facilities should be introduced. Excemptions and tax incentives, therefore, must be limited to the production of the basic needs, and if necessary they should be subjected to comprehensive studies and researches. Taxes on wealth and property, however, can also be enforced to release more resources for production and to reduce inequality in income distribution.

Fig.2.4: Growth of Major Sources of Tax Revenues

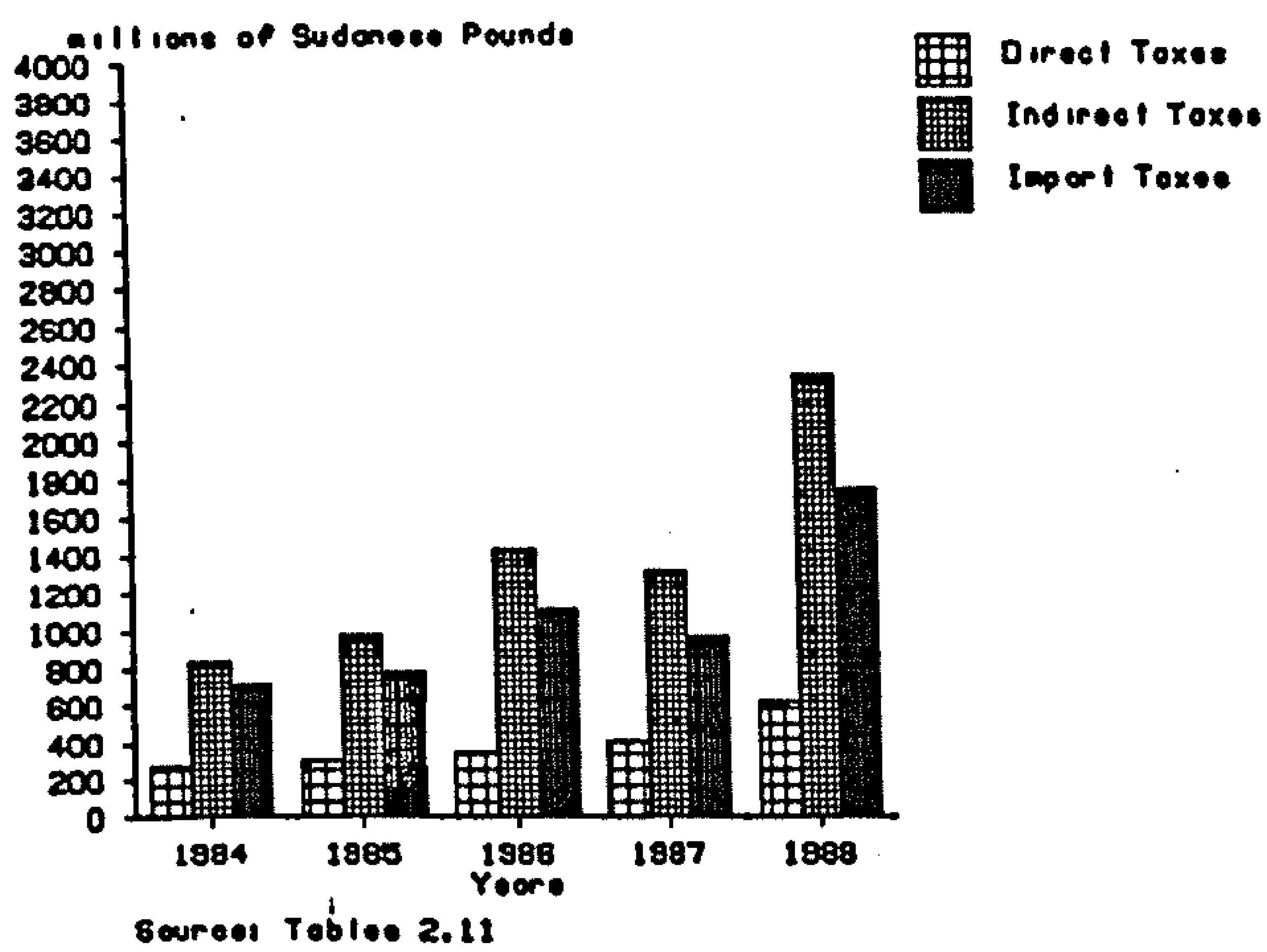


Fig.2.5 Composition of Indirect Taxes

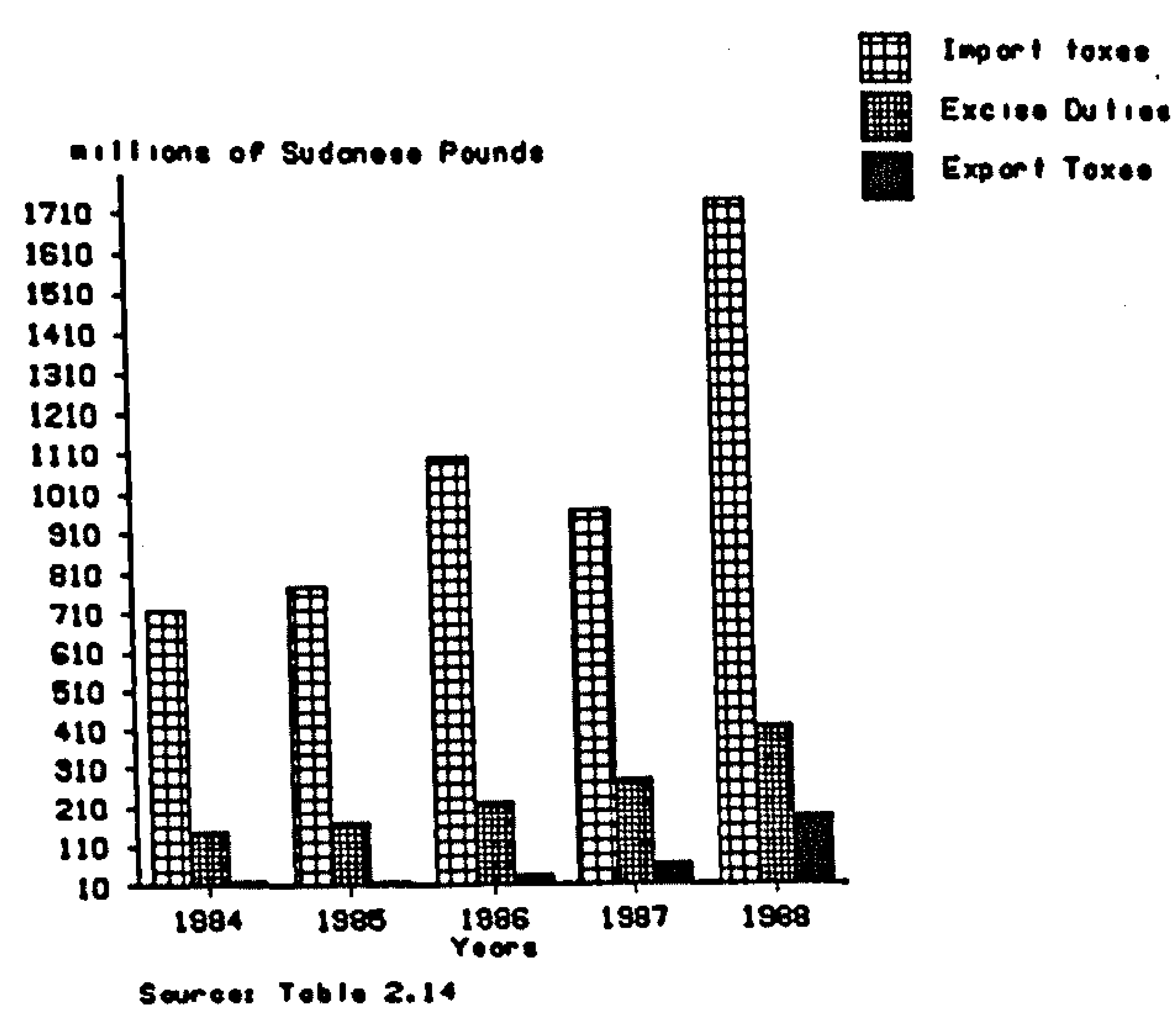


Fig. 2.6: The Sudan Tax level as a Proportion of the GDP

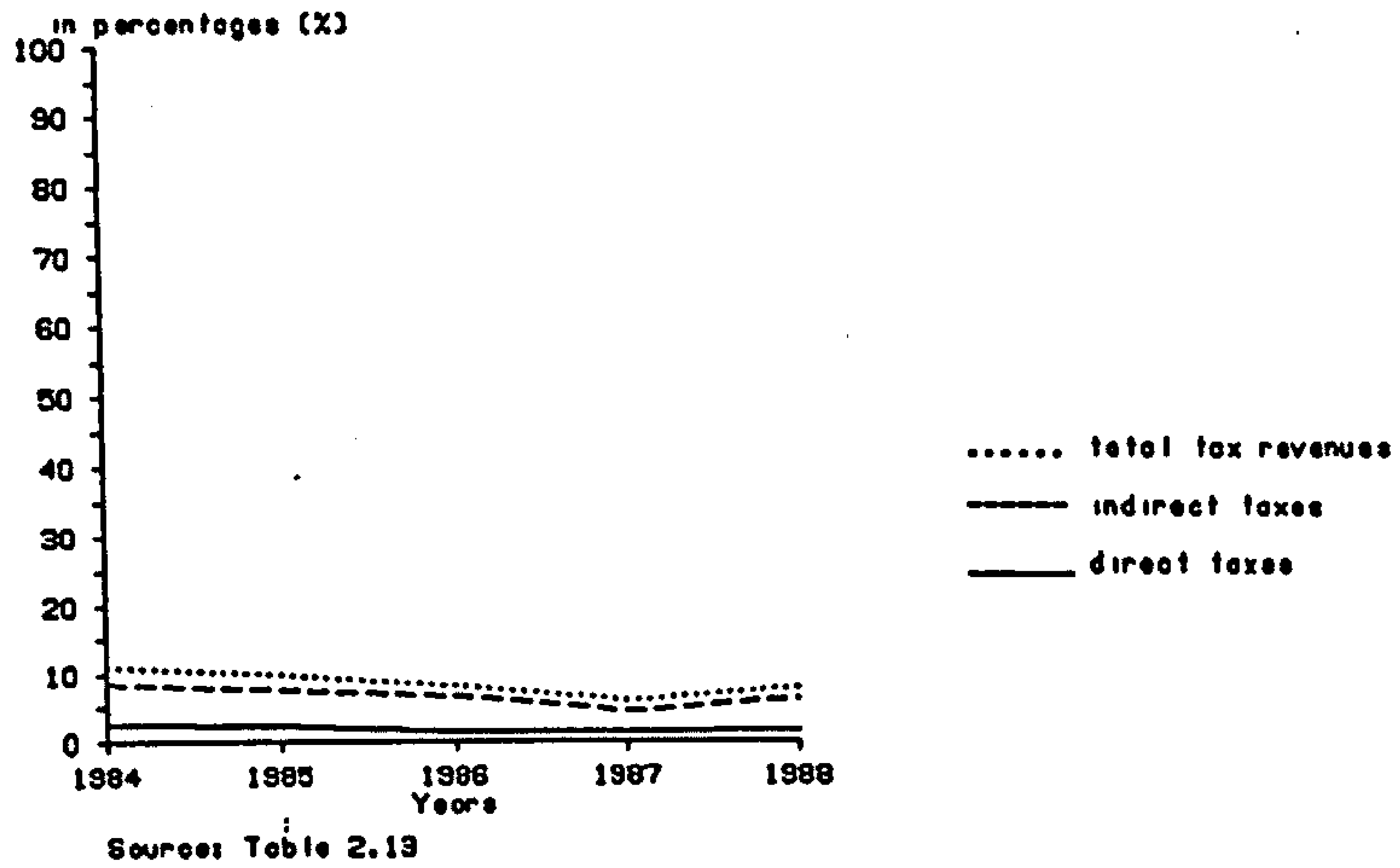
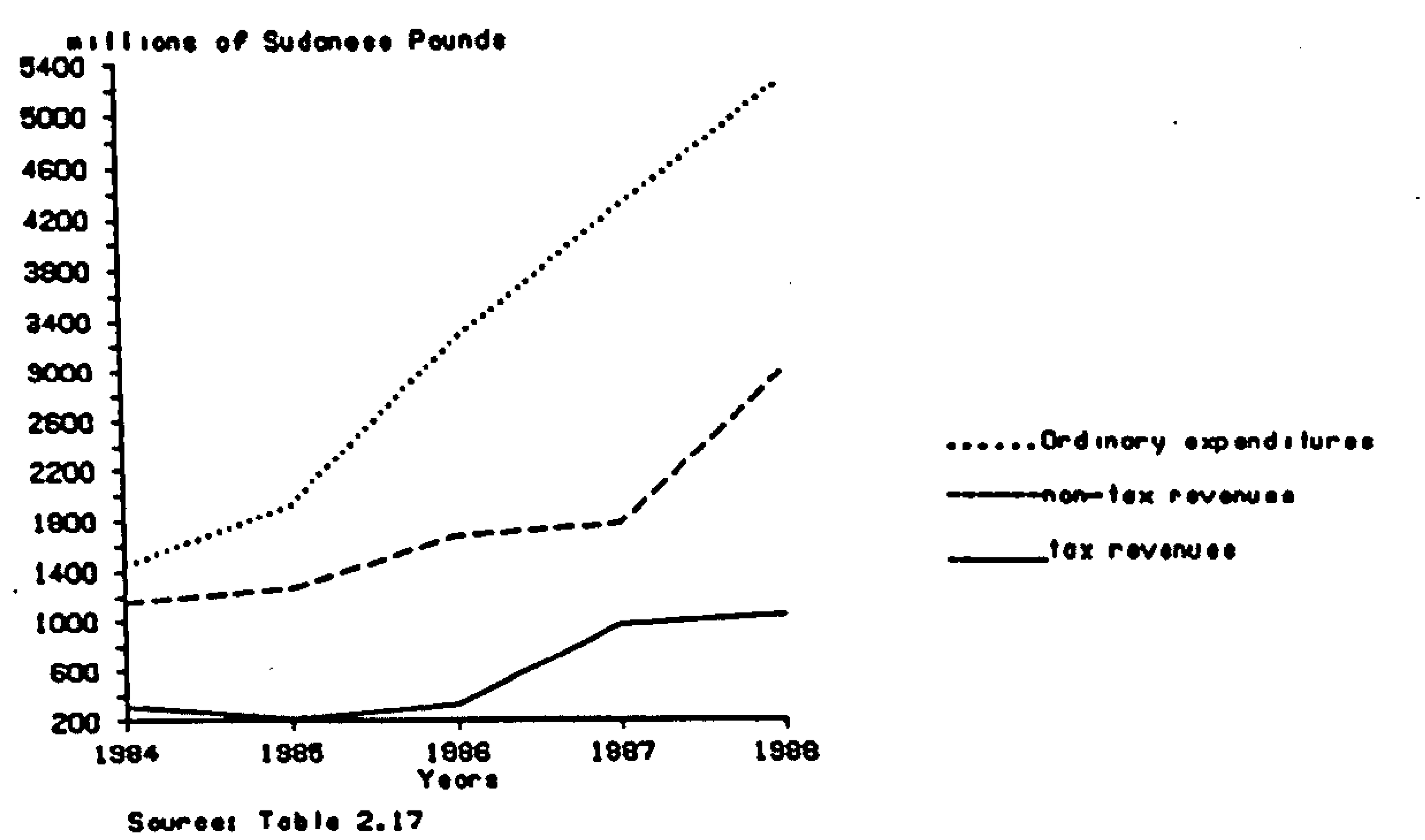


Fig. 2.7: Growth of Tax and Non-Tax Revenues to Ordinary Expenditures



Chapter III

The Theory of Taxation and Development

3.1 General Scope and Definitions

This chapter is proposed to review, in general terms, the theory of taxation and its development, with special reference to tax problems in the developing countries. In the world economy, however, the theory of taxation occupies a central position in the field of political economy and the area of fiscal policy mainly because it is one of the most important means of increasing public revenues.

Historically the need for taxation, and so for formal government in the economic process, arose from the inability of the market to provide public or collective goods at a level on which consumers might maximize their utilities at the minimum level of profits of the producers, i.e. to satisfy the perfectly competitive market conditions and a flexible prices mechanism. As explained by Musgrave (1959), the causal facors for taxation can briefly be summarized as follows: Firstly, to provide social and merit goods for which the preferences of individuals would not be fully revealed, and would thus not be provided by private agencies. Private agencies, however, rely in their decisions to produce goods on information provided directly by the consumers who are buying the goods at the going prices. In the case of social and public goods, which are consumed jointly by individuals, market forces are unable to reveal the consumers' preferences for them. Examples of social goods which cannot be supplied by private agencies are: defence, street lighting, urban parks, and law and order. Similarly, merit goods such as education, health and public services also suffer from the inability of the market to provide them at an adequate level, since in a free market they might be underconsumed. The benefits of such goods may not be understood by all consumers unless they have children of school or university age.

The second factor used to justify taxation is the avoidance of market imperfections. This is mainly related to the increasing tendency of economic agencies towards monopolistic and oligopolistic competition. A result of this is a sharp rise in prices and a distortion of the market as a planning mechanism. Even in a free market situation, taxation might also be needed to increase economic efficiency, for example, in the case of wasteful competition. It can also be used as an effective tool to restore the stability of the economic system and to accelerate the rate of economic growth. The third motive for the use of taxation is the need to improve income redistribution and to attain a high level of social justice. In this respect, taxes have been attempted mainly to raise the share of the national income going to the poor and to bridge the gap between the extremely wealthy individuals and the poor.

In developing countries, however, taxation has a specific role in the development process and in releasing resources for productive use. It is argued by Lewis (1984) that in the view of the limited scope for raising the share of saving and investment in national income, taxation becomes the major tool available to the government for mobilizing the necessary resources and canalizing them into productive investments. The primary purpose of taxation, according to Goode (1984), is to divert control of economic resources from taxpayers to the state and influence the efficient allocation of resources and the distribution of income and wealth.

For economists, defining a tax is a matter of describing its economic function. The greatest economists, Smith, Say and Ricardo, have limited themselves to saying that a tax is the quota each citizen has to pay towards the cost of public services. The best taxes, according to Adam Smith, are the lightest ones or those from which the pressure is least felt by the payers. The sums taken then as taxation should be compensated partially, or even fully, by increased production or saving (Musgrave and Peacock, 1967, p.153).

In taxation theories, it is very difficult to distinguish between taxes applied on capital and those on income. The tax levied on capital may be defrayed out of income, whereas a tax levied on income has in most cases to be paid from capital. In accordance with McCulloch (1863), the real incidence of a tax, depends on the way in which it may be imposed, and the uniform effect of a tax is to create a new ability in the people to bear it. As he defined the word tax:

> " a tax is a portion or the value of a portion of the property or labour of individuals taken from them and disposed of by government. A tax may be either direct or indirect. It is said to be direct when it is taken directly from property or income; and indirect when it is taken from them by making individuals pay for liberty to use certain articles, or to exercise certain privileges..... It is also the name given to that branch of the science of political economy which explains the mode in which taxes affect the public interests, and in which the revenue required for the public service may be most advantageously raised (McCulloch, 1975, p.15).

However, more concepts and purposes of taxation that have been considered by tax specialists in the literature can be clarified with more details throughout the coming analysis:

3.2 Tax Rationality Criteria

Traditionally, the main desirable criteria of a tax system, as stated by Smith in his classic book *Wealth of Nations Vol.1*, are: neutrality, equity, and administrative efficiency. Neutrality is concerned mainly with the economic effects of a tax on the pattern of resource allocation. This requires also that taxation should not impose avoidable real costs on the community; equity refers to the extent to which a tax tends to redistribute income and wealth, as well as to narrow the gap between rich and poor; and administrative efficiency deals essentially with the way a particular tax structure can be administered. In theory, these criteria are widely agreed upon as characteristics of an ideal tax structure. In practice, however, these criteria appear to be incompatible and are often seen to be at odds with one another: equity may contradict neutrality, and both may disrupt administrative efficiency criterion.

Other criteria of taxation especially for the developing countries, include economic growth, economic stability, and redistribution of income and spendings. These criteria are very useful, particularly in developing economies where economic growth, stability, and redistribution constitute the central elements of the development programmes. These criteria, also tend to clash with the conventional ones, and indeed with each other. Stabilization, for example, may violate neutrality and equity; similarly the growth principle of taxation may come into conflict with both neutrality and equity as well as with the stabilization principle.

3.2.1 Neutrality Criteria of Taxation

A tax, is said to be neutral when it does not interfer, alter or distort market forces, and when it accomplishes its assigned objectives. According to Musgrave (1959), taxes should be designed to impute the cost of public services to members of the society in conformity with the individuals' perferences and patterns of life. This means that the cost of taxes should be set in accordance with the intended pattern of burden distribution; any unintended interference with private market decisions may lead to excess burden. For Musgrave, however, neutrality means efficiency only if a perfect system already exists before the imposition of the tax. On the grounds of neutrality, he prefers a general sales tax to a specific tax on one good. Alan (1971) on the basis of neutrality, asserts that taxes on goods which are subject to inelastic demand should cause less distortion effect than taxes on goods subject to elastic demand. The most neutral tax, therefore, is that whose excess burden can be avoided or minimized.

In economic theory, however, there are various approaches to, and elaborations on the concept of neutrality and the excess burden of taxation. The fundamental approaches that dominate the theoretcal discussions and writings are those of Marshall, Hicks and Friedman or the general equilibrium approach school.

- **The Marshallian Approach to Neutrality:**

Marshall (1890), in his book *Principles of Economics*, presents a simple model for the demonstration of the excess burden of a tax on the economy. He follows the cardinal measurement of utility and uses the consumer's and producer's surplus approach to investigate the ultimate burden of a tax on the utilities of the individuals and thus on the general level of welfare. His model in its simplest form may be illustrated by the following figure

The figure below, explains the market conditions for a commodity before and after the imposition of a tax. Before the tax, the market equilibrium e_0 is delineated by the intersection of the demand and supply curves with equilibrium levels of price and output equal to p_0 and q_0 respectively. After the imposition of a tax rate equal to (T), the supply curve (S) shifts to (S+T) with the market equilibrium moved to e_1 at a higher price p_1 and less output q_1. As a result the

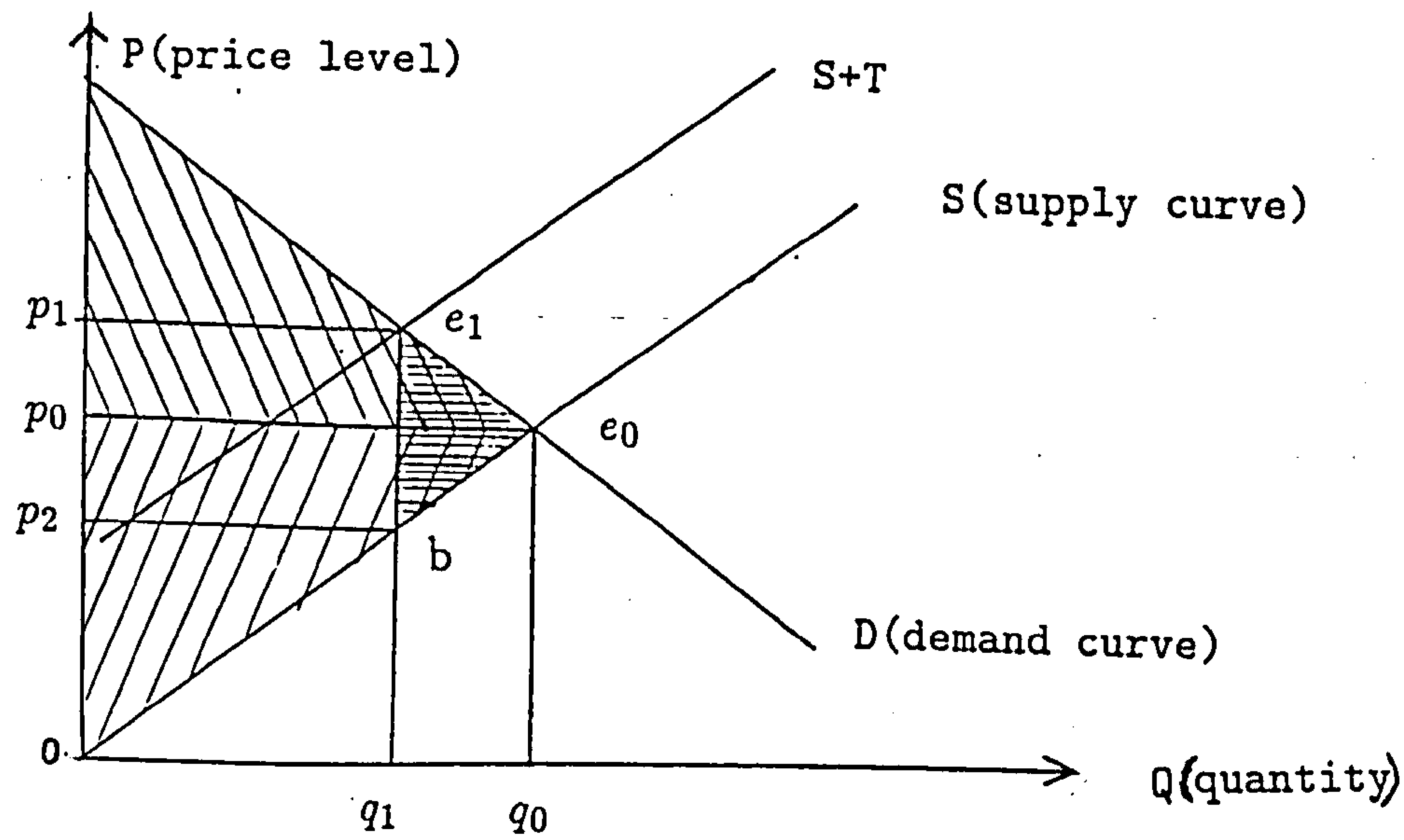


Figure 3.1: The Excess Burden of a Tax

tax revenue will be raised by an amount equivalent to the area ($p_1p_2be_1$) in the figure (i.e. the number of units sold q_1 times the tax rate (T)). As shown in the figure, both the consumer and producer will bear some of the tax burden. The consumer will suffer a loss of consumer surplus equal to area ($p_1p_0e_0e_1$), while the producer will suffer a loss of producer surplus equivalent to the area (p_0p_2b) e_0. The total loss of surplus by both consumer and producer is shown by the area ($p_1p_2be_0e_1$), i.e. the total revenue raised by the tax plus the area embodied by the triangle (e_1be_0). This area is refered to by Marshall as the excess burden or the welfare loss of the tax payers over government revenues represented by the area ($p_1p_2be_1$). In accordance with the neutrality criteria, this area should be avoided or minimized to its minimum.

The extent of the excess burden of a tax, as demonstrated in the figure above, varies according to the degree of elasticity of demand. The larger excess burden, therefore, occurs when the demand is perfectly elastic, i.e. when the demand curve takes the shape of a horizontal line. On the other hand, no burden of a tax arises when the demand curve is vertical, i.e. when the elasticity of demand is equal to zero. By following the Marshallian approach, the excess burden of a tax might be avoided better in one of three ways: firstly, by taxing goods which show low elasticity of demand; secondly, by taxing all goods equally; and thirdly, by taxing incomes only, i.e. no taxes on commodities are to be imposed.

- **The Hicksian Approach to Neutrality**

Unlike Marshal, Hicks (1946) in his demonstration of the efficiency of taxation on the ground of neutrality, follows the ordinal utility approach, which compares the effect of different taxes on the consumer's welfare. His particular emphasis is on the neutrality of income taxes rather than on taxes on specific goods in relative terms. This approach holds that taxes on income are preferred to taxes on specified goods because they do not distort or reduce the consumer's choice between goods. He regards any loss of utility (welfare) in excess of the utility lost during the transfer of income to government through a tax as an excess burden which should be avoided. Accordingly, the best tax regime is that which leaves the individual on the highest utility (or indifference) curve. The following figure illustrates the effects of income taxes on an individual under the assumption that a perfectly competitive market exists, and that government requires a given revenue yield from the taxpayer.

The figure above shows a market demand for two goods (x) and (y). (I.1), (I.2) and (I.3) are the indifference curves. Before the imposition of a tax, the optimal consumption bundle goods which maximize the utility of a consumer is at (e.1) which gives (x.1) units from good (x) and (y.1) units from good (y). When a tax rate is imposed on a good, say (x), its price will immediately rise and accordingly the consumer will be forced to shift to lower consumption and utility levels and so produce a new equilibrium at (e.2) with a consumption bundle of (x.2) from

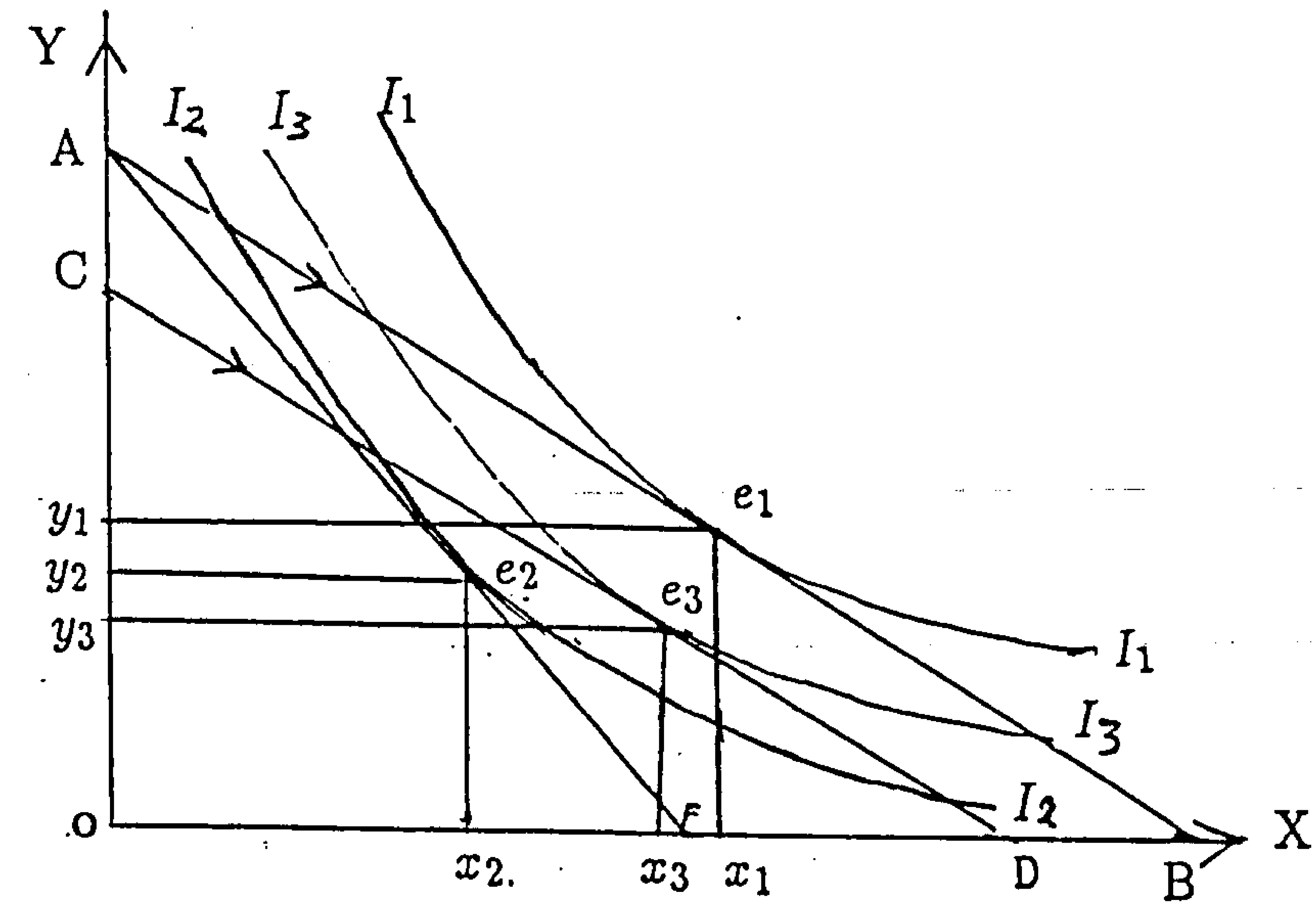


Figure 3.2: Incomes' Effects on the Neutrality of a Tax

good (x) and (y.2) from good (y). However, this will result in a change of income elasticity by the shift in the income line from slope *AB* to slope *AF*. Considering the Hicksian proposition, then, if a tax on income is imposed instead of one on goods (x), the consumer's income will shift from *AB* to *CD*, giving a higher utility level than when a tax is imposed on the good. As indicated in the figure above. the utility level resulting from the imposition of a tax on the income is represented by the curve (I.3), which gives higher utility than that represented by (I.2), when the tax is levied on a good. In its general form, the model emphasizes the superiority of income tax to taxes on goods.

- **The General Equilibrium Approach to Neutrality**

Friedman (1952), prefers the general equilibrium approach, notably the equilibrium of the good market, where the consumer and the producer maximize utility and profits respectively, as to tax neutrality. The tax, then, is required to have less distortion on the price mechanism, which is regarded as an invisible hand which brings, in a flexible manner, the general equilibrium in all the markets of an economy, namely the labour, goods and money markets. In his approach to tax neutrality, he considers the situation in which goods are produced under conditions of increasing costs. As he argues, any tax should, if it is to satisfy the government's strategy of raising revenues and securing efficient allocation of resources, allow the private sector to make a choice of goods which will yield a higher welfare level. This approach, however, stresses the importance of price flexibility in securing stability in the general equilibrium of an economy. The good tax, therefore, is the one where the prices will be equal to the rates at which goods can be substituted for each other. Comparing income taxes with selective excise taxes on goods, the general equilibrium approach, like the Hicksian one, establishes the superior neutrality of income taxes over taxes on goods.

For a tax to minimize the possible distortions which might occur to the market, the general equilibrium approach assumes the following conditions: (a) a fixed supply of work effort; (b) a fixed supply of saving; (c) purely competitive conditions; and (d) a proportional tax rates policy. Under these assumptions, as pointed out by Musgrave, a general income tax and a general consumption tax are superior to a selective excise tax which imposes an additional burden. Given any two products, (x) and (y), the efficiency of allocation will require that the rate of transformation between goods by producers be equal to the marginal rate of substitution by consumers. Such rates will satisfy the competitive equilibrium stabilization point and will definitely generate a truly neutral tax (Musgrave, 1959, P.148). On the other hand, a selective excise tax on a good might generate inequality between the marginal rate of substitution (*MRS*) for a good and the marginal rate of transformation (*MRT*) for that good. In short, the general equilibrium approach attaches particular importance to the equality between the marginal rate of substitution and the marginal rate of transformation in order to have an efficient neutral tax.

3.2.2 The Equity Criteria of Taxation

The equity criterion, like the neutrality criterion, is a very important element of taxation policy. Obviously, no one wishes a tax system to be unfair. In the *Canons of Taxation* by Smith, two categories of equity are distinguished: the horizontal equity and the vertical. Horizontal equity describes the equal treatment of equal people. People with equal incomes, for example, might be required to pay the same income tax. The vertical equity describes the treatment of taxpayers who display differing degrees of inequality or abilities; those with unequal abilities should pay different amounts of taxation to support the government. In practice, however, it is very difficult to achieve vertical equity. This is due mainly to the difficulties in defining and identifying the appropriate degree of inequality in practice. While some economists see that the appropriate degree of inequality of income taxation is by a proportional tax policy, others regard progressive income taxes as more equitable.

The discussion of the issue of equity in the theoretical writings, however, has produced two important and fundamental opposed concepts of what is a fair and just tax. The first concept holds that equity can be attained by rendering the tax payment commensurate with the degree of benefits derived from government expenditure. The second holds that vertical equity may be attained when taxes are paid on the ability-to-pay basis. Each of these concepts will be elaborated upon in the following discussion:

- **The Benefit Approach to Equity**

This approach states that people should be made to pay for all services they receive. The benefit approach, as many economist argue, is the most suitable one since it is fair; equity is thus attained when the beneficiaries of government expenditure pay for these benefits through taxation according to the degree to which they benefit (Samuelson, 1955). This means that the government can sell various social and merit goods in a way analogous to the private firms.

Samuelson's work on the pure theory of public expenditures, puts the problem of allocating tax shares in a general equilibrium framework, using welfare economics techniques. He uses Pareto-optimality criteria and an ordinal utility approach to determine the optimal choice between private and public consumption of goods. The simplest model for illustrating Samuelson's work on the benefit approach to taxation is illustrated in the figure below:

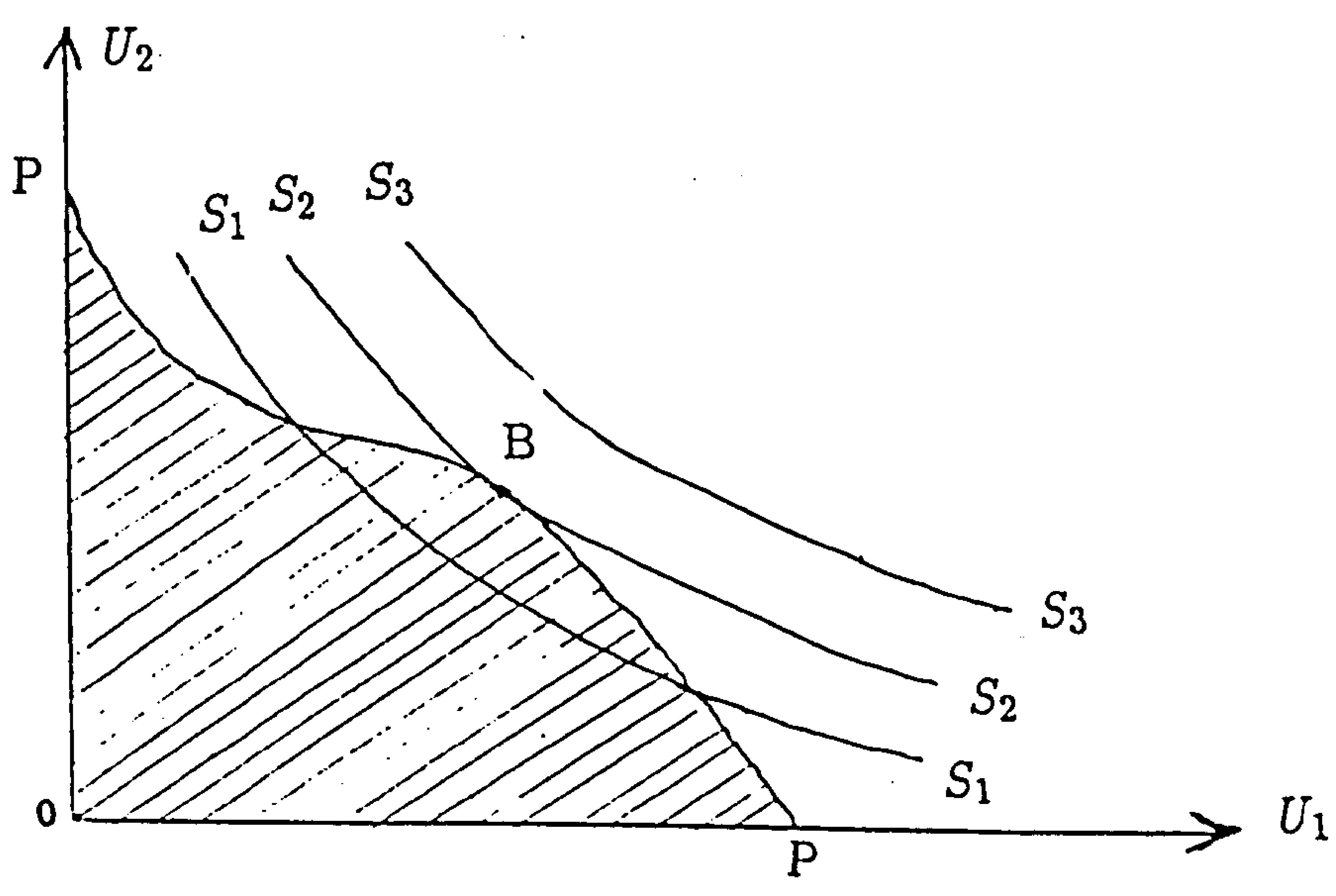


Figure 3.3: The Benefit Approach to Equity

The figure above shows the utility of two individuals; individual (1) on the horizontal axis, and individual (2) on the vertical axis. The curve *PP* represents a utility frontier along which all the Pareto-optima are plotted. All points to the north-east of the curve *PP* are unattainable levels of welfare, while all those in the shaded area are sub-optimal. To choose between the points on the utility frontier, Samuelson uses social welfare curves which are denoted in the above figure by (S.1), (S.2) and (S.3). The super-optimum point or the (best obtainable bliss point), as Samuelson calls it, will be at point (B) on the figure, where the highest level of social welfare is reached. At (B), the tax shares of each individual are determined, and depend on the extent social goods are provided.

This approach attaches great importance to the preferences of the consumer-taxpayers, i.e. to the voluntary exchange approach. In practice, however, as a result of the political nature of the social welfare map and the problem of revealed preference, the highest utility point (B) is unlikely to be reached and the benefit approach, therefore, may run into problems. One of the main difficulties is that the provision of public goods might not be made appropriate in accordance with the revealed preferences of the people. Also, even when the preferences are revealed, it is not always easy to have one unique optimum solution.

In considering the problems of benefit principle to taxation, Teja is of the view that, earmarked taxes are good examples of an application of the benefits principle of taxation which may associate with higher revenues and also can better substitute for user charges. As he says:

> "Frequently, the use of earmarked taxation is justified by invoking the benefits principle of taxation, which argues that taxes should be borne by those who most benefit from the associate expenditure. The notion is appealing to economists because it parallels the market mechanism for private goods. The analogy makes most sense when an impure public good is characterized by excludability in consumption. Then it becomes possible to finance the activity with a user charge. Although user charges are in a sense earmarked for their associated activity, the implementation of user

charge is not equivalent to an earmarked tax in terms of efficiency and equity (Teja, 1988, p. 527).

The term "earmarked taxes", as defined by Buchanan, refers to the practice of designating or dedicating specific revenues to the financing of specific public spendings. It is also discussed under such headings as special funds, and segregated accounts or budgets. Some examples of earmarked taxes are gasoline tax as a proxy for charges on highway users, payroll taxes for social security payments, and restricting certain taxing powers to finance basic services, e.g. fire districts and schools. According to Buchanan, the earmarking of revenues is an appropriate strategy to allow the citizen to vote and reach collective choices and decisions than in the case of general-fund budgeting (Buchanan, 1963, pp. 457-59). Goode, in his elaboration on the budgeting procedures, critized the case for an earmarked budget on the grounds that it can handicap orderly management of cash flow and create a rigid budget (Goode, 1984, p. 11).

- **The Ability-To-Pay Approach to Equity**

The ability-to-pay approach to equity, unlike the benefit approach, suggests that the revenue of taxation is not to be raised by taxing people according to how they benefit from government expenditure, but according to their ability to pay the tax. At present this approach is practiced widely by governments through introducing taxes on individuals. The most obvious measure of ability-to-pay used by governments is income after allowances for subsistance and family size are considered. Accordingly, the higher a person's money income, the more able he is to pay taxes. The definition of income considered in this approach also includes capital gains. Incomes from gifts and inheritance, however, are not generally included by the authorities but are treated seperately with wealth taxation.

In the interests of horizontal equity, it would seem necessary to include allowances for non-money income, i.e. income derived from ownership, houses, treasures or jewellery. Other types of wealth are also very important, more so, on occasions, than income. The main advantage of including wealth in a tax scheme is that it would allow for likely future income rather than just current income. By introducing expected future earnings and non-money income in the calculation of ability-to-pay, the basis is broadened and the net worth of the tax acts as a function of current income, net tangible assets and the value of the expected future income. In a mathematical formula this appears as following:

$$\text{Net Worth} = f(y,a,ye)$$

Where (y) denotes current income, (a) denotes assets and (ye) the value of the expected future income.

In accordance with the ability-to-pay approach, the payment of taxes usually involves sacrifice on the part of the individual, i.e a loss of utility. Thus the greater the ability of the taxpayer, the smaller the sacrifice. So by considering the concept of sacrifice, a fair tax system based on ability-to-pay approach is defined as the one in which the degree of sacrifice of utility by all taxpayers is the same. Three concepts of equality of sacrifice have emerged from the theoretical discussions: equal absolute sacrifice; equal proportional sacrifice; and equal marginal sacrifice.

In clarifying the meanings of these three concepts, Musgrave makes four assumptions: firstly, that the marginal utlity of income is an inverse function of income size, i.e marginal utility of income declines as income rises; secondly, that interpersonal utility comparison is admissible; thirdly that individuals have identical tastes. i.e. the income utility for all taxpayers is the same; and fourthly, that the government requires a given revenue from all individuals with taxable capacities. Taking all these assumptions into account, then, equal absolute sacrifice requires that both rich and poor give up the same quantity of utility, in such a way that their combined contributions are equal to the required yield. In money term, equal absolute sacrifice generally involves a greater tax burden on the rich than on the poor, although in terms of utility they bear the same burden (Musgrave, 1959).

Given the above assumption, the equal proportional sacrifice method suggests that sacrifice by individuals in paying taxes should be in proportion to their income, i.e that the rich should bear greater disutility from the tax than the poor. The sacrifice implies a progressive tax rate when the marginal utility function for money income is declining, and a proportional rate when the marginal utility curve is a fixed or constant function. The equal marginal sacrifice concept suggests that the rich should not only pay a greater amount in taxes, but that they should sacrifice a greater proportion of their utility than the poor. Therefore, both rich and poor should pay taxes in such a way that the last unit of tax paid involves each in the same loss of utility. In other words, the marginal utility of income after tax should be the same for each individual. However, although equal marginal sacrifice is regarded as the best since it minimizes the total burden of taxation, there is less agreement about the rate at which marginal utility declines as income increases.

With regard to the ability approach to taxation, objections have been voiced concerning the suitable measure of the taxpayer's economic capacity. Kaldor, for example, in his book *An Expenditure Tax*, advocates the use of expenditure tax rather than income tax. He states:

> "The fairness in taxation requires that people should be taxed according to the amounts which they take out of the common pool, and not according to what they

put into it" (Kaldor, 1955, p. 53).

His argument for an expenditure tax is that such a tax will not affect saving, whereas in income taxation both consumption and saving will be taxed.

Musgrave, unlike Kaldor, in his comprehensive discussion of the theory of taxation, does not accept the superiority of expenditure taxes over income taxes. His view as stated in his book *The Theory of Public Finance* is as follows:

> "The ultimate choice between consumption and income as the appropriate measure of ability is a subjective one and rests on personal value judgement" (Musgrave, 1959, p. 163).

In view of the difficulties of having an ideal measure for all people, it seems that a combination of income, consumption and wealth may lead to a more equitable tax structure than would be the case if reliance were placed on any one single measure.

3.2.3 Administrative Feasibility Criterion of Taxation

Regarding the administrative feasibility of a tax system, economists have in general agreed to the notion that taxes should not be too costly to collect for the government or for taxpayers (Goode, 1984, p. 76). This objective, also implies that taxes should be assessed and imposed in such a way that compliance is increased and evasion is reduced.

In connection with the issues of increasing compliance and reducing evasion, the general economic analysis has centred on such devices as tax withholding and self-enforcing. The tax withholding or PAYE system is one of the widely used approaches in practice to reduce the free choice to evade paying taxes. One of the merits of this system is that the tax is collected at the time when income is earned, thus the convenience of the taxpayers in meeting their tax liability can easily be satisfied. This system, however, may effectively be applied to wages and salaries, dividends, interest, and incomes from large business. Mansfield, in advocating the use of the withholding method to reduce evasion and increase compliance, suggests also the enforcement of penalties and proper auditing to achive good results of this method. For example, in the case of property taxes the failure of a taxpayer to pay his due may result in auction of the property. Generally, the enforcement of penalties should not be too stiff and in particular it should regard equity and political considerations (Mansfield, 1988, pp. 187-88).

Prest (1960), in discussing the administrative aspects of taxation, shares the view that the implementation of PAYE or withholding techniques may greatly enhance the tax collection from low income persons, therefore it can make the case of direct taxation easier, both in terms of administrative efficiency and the convenience of taxpayers. He described the ideal tax system, from the point of view of administrative efficiency, as the one which could encompass these conditions: Firstly, the tax should be determined in a manner with which the taxpayer can identify easily; e.g. head taxes which relate to the number of people are easier to collect than levies on transactions. Secondly, the structure of the tax rates should be simple and the collection procedures should be convenient for the taxpayer. For example, if the tax is collected at the time when income is earned, it is more convenient for both the taxpayer and the government. Finally, the administration of the tax should be stable over time and the cost of information to the taxpayer should be reduced to the minimum (Prest, 1960, pp. 136-38).

Another policy considered by Kaldor (1965) to reduce the tendancy of a tax system towards evasion, is through the use of the self-enforcing strategy. This strategy calls for inexpensive administration not only by setting tax laws as in the case of the PAYE system, but through the means of enforcement techniques which encourage the generation of information by focusing on limited types of taxation. He states this view as follows:

> "It cannot be emphasized too strongly that the efficacy of the tax system is not just a matter of appropriate tax laws, but of the efficiency and integrity of tax administration. In many underdeveloped countries the low revenue yield of taxation can only be attributed to the fact that the tax provisions are not properly enforced, either on account of the inability of the administration to cope with them, or on account of straight forward corruption in the administration" (Kaldor, 1965, p. 189)

According to supporters of the self-enforcing method, the suitable taxes to fit into the system cover income tax, capital gains tax, the wealth tax, and the personal expenditure tax. These taxes are regarded as self-checking as, for example, information furnished by a taxpayer to prevent overassessment of his own liabilities may automatically reveal the receipts and gains made by other taxpayers. Such an exchange of information is highly advisable to force consistency in tax reporting and to match information from different sources. This method favors also the possibility of using the computer information systems to allow the idea of self-enforcing to become more practical (Mansfield, 1988, pp. 189-90).

Contrary to the views which have emphasized the importance of the legislative aspects of taxation (withholding, penalties and enforcement) to improve administrative efficiency, recent tax efforts in the developing countries have increasingly tended to focus on the tax handle theory which links the tax structure of a country to the stage of its development. This theory suggests that a developing country should develop a particular set of taxes which are easy-to administer. According to Goode, these taxes may cover international trade, mineral production, and transactions of large enterprises. Agriculture and transactions within the rural sector, on the other hand, are regarded as hard to tax for both administrative and technical reasons, as well as for their political sensitivities (Goode, 1984, pp. 84-87).

Newbury, in discussing the issue of taxation in the developing countries, emphasized also the features of the developing countries and the availability of information and tax instruments to determine the effectiveness of a tax policy. To him, the main reasons for a low income economy to choose few taxes (tax handles) are related to the inefficiency of information, fewer skilled personnel, and an inadequate system of auditing. In view of these considerations, a comprehensive tax reform in the developing countries is assumed to be administratively expensive and inconvenient. As regards the taxation of agriculture, he shares the same view of Goode that it is not administratively feasible and explains thus:

> "For the developing countries, several important characteristics limit the range of feasible taxes and modify their incidence. The main distinguishing feature is the importance of the agriculture sector. Transactions within the sector are hard to observe and therefore hard to tax. Land is a theoretically ideal tax base, and land taxes were a major source of revenue in earlier times. The information required to levy the taxes, however, is only readily available at the local level, and substantial political impediments block transferring the information to the central government and implementing a central land tax or using the information locally" (Newbury, 1987, pp. 202-203).

The tax handle theory, although it can be defended on the grounds of administrative convenience, has been subjected to much criticism on both stabilization and efficiency grounds. The critical remarks of the tax handles theory for stabilization purposes came from its narrow coverage and incapability to encompass all income groups. In addition, the difficulties to adjust the tax rates in the case of commodity taxes on foreign trade due to unpredictable fluctuations of exports and imports will not assist in achieving economic stability objectives. From the standpoint of efficiency, the imposition of taxes on trade is likely to lead to distortions of both production and consumption costs (Mansfield, 1988, pp. 193-94).

3.2.4 Growth and Development Criterion of Taxation

With reference to growth and development, the primarily consideration of a tax policy is to achieve a satisfactory rate of growth levels and to keep a balance in the growth between sectors through the efficient mobilization of resources, improving the allocation of public spendings and the reducing of fiscal deficits. In the developing countries, where the share of government spendings in the gross domestic product is relatively too high, and in view of low savings and limited foreign earnings, the emphasis on taxation has increasingly become one of the key factors in the hand of the governments to face their fiscal crises and secure economic stability and development. The average share of government spendings to GDP in the developing countries, as estimated in a study by the World Bank during the 1980s, accounted for about 20 percent. These spendings cover both contributions of governments in the establishment of public enerprises, as well as provisions of public goods and services (World Development Report, 1988, pp. 46-47).

To maintain the growth objectives and the rising demand for government spendings in the developing countries, the tax structure needs to be designed in such a way that all taxable capacities are efficiently utilized. So, any increases in public expenditure must not exceed the foreseeable capacity to pay for them. This requires also that any major changes in the tax structure should be properly prepared in advance and any sudden change avoided. The definition of the term 'taxable capacity', as considered by tax specialists in the area of development, has followed two slightly different approaches. According to Goode, for example, the taxable capacity of a country signifies generally both the ability of the people to pay taxes and the ability of the government to collect them. The ability of the people here is measured in terms of per capita income, and the ability of the government is measured in terms of administrative capacities (Goode, 1984, p.84). Another view expressed by Kaldor to define the term taxable capacity, suggested that it is not necessarily related to per capita income but more importantly to the devotion of a high ratio of resources of the developing countries to necessary consumption. He says:

> "The level of national income per head in the underdeveloped countries is not a good indication of taxable capacity. If a large part of a country's resources is taken in inessential or luxury consumption, then there is plenty of scope for increasing the tax revenue" (Kaldor, Krivine (ed.), 1967, p. 211).

In the context of economic growth, it is desirable that taxes should be income elastic and revenue-productive. An individual tax or a tax system as a whole is said to be elastic if the proportional change in the tax yield associated with a change in national income does not result in any change in the tax rates (Goode, 1984, p. 92). From the standpoint of revenue productivity, taxes with high rates are not to be favoured as they may increase the tendency towards tax avoidnce and evasion.

The prime goal of taxation in the developing countries, however, is not only the increasing of revenue yielded, but the direction of revenues and their allocation into productive uses. These are equally as important as the generation of revenues. The government in order to direct private savings and investment, for example, may be required to provide special incentives for industrial investment and new enterprises. These incentives might include both the provision of concessions to desirable private investments, including foreign investors and the penalization of the misallocation of savings into nonessential areas or wasteful consumptions. Tax allowances, however, may also be required if incentives to work, save and invest are not to be impaired (Goode, op. cit., p. 243). Other incentives often considered in the developing countries cover the acceleration of depreciation allowances, the exemption of raw materials and necessary equipments for production from duties, and the provision of tax holiday, as well as the carrying forward of losses (Nimeri, 1974, pp. 64-67).

Although tax specialists tended to agree on the importance of the issues of resource mobilization and the employing of incentives to promote economic growth, on the theoretical level, however, the discussions have emerged into two different views: the public interest view of public sector and the private interest view of public sector. While the former view stresses the superiority of resource mobilization and allocation strategy for taxation, the other view attaches more emphasis to the role of market incentives as a favourable strategy to taxation (World Development Report, 1988, p. 48-49). The emphasis on taxation as a mean of resource mobilization, for example, has been a major theme of Kaldor's works in the field of taxation for development. Though emphasizing that strategy Kaldor did not deny the importance of incentives to attract foreign capital, however, he regarded them as being complementary to domestic efforts. He explained this view by saying:

> "In my opinion a great deal of the prevailing concern with incentives is misplaced- except in particular cases, such as in the matter of tax concessions granted to foreigners which may increase the inflow of capital from abroad- it is limitation of resources, and not inadequate incentives, which limits the pace of economic development" (Kaldor, Robinson (ed.), 1965, p. 170).

In this view the taxation potential of a country depends greatly on the administrative competence of the tax collection organs, the real income per head, the degree of inequality in income distribution, and the distribution of the national income among the main sectors in the economy. The denial of the effectiveness of incentives and market forces to foster growth in the developing countries, by proponents of this view, is mainly related to the following assumptions: the existence of monopolies, the gaps in the supply of information (private agencies in this respect are assumed to be less informed than government), and the underprovision of goods that benefit people other than the direct producers or consumers of goods provided by free markets (World Development Report, 1988, p. 49).

As opposed to the public interest view, the private interest view of the public sector favours the effectiveness of incentives as a policy to improve public revenue and to achieve growth objectives. In stressing the superiority of incentives Stern (1989) has strictly denied the involvement of government in production since such tasks can better be carried out through free markets and has asserted:

> "Governments, however benevolent, could not be sufficiently well informed to calculate what every agent should optimally do and could not successfully command every agent to do what they calculate. They should not try. This means that many decisions should and will be taken by individuals acting in markets. Thus the government will have to decide what activities to undertake and how to raise revenue for those activities, to examine what influence it should exert on incentive and to consider the distribution of welfare" (Stern, 1989, pp. 652-653).

In compliance with the assumption that a tax structure must not distort systems of pricing, proponents of that view suggest that the design of taxes must take into account their administrative feasibility, the problems of evasion, and their political acceptability along with the consideration of revenue productivity, incentives, and the redistributional aspects. Goode, however, in considering the formulation of tax policies suitable for economic growth in the developing countries, suggests that they should not limit the capacity and willingness to work by imposing taxes on income or hamper exports through over-valuing of exchange rates. He is also of the view that, if feasible, tax incentives should be offered and any bias against labour-intensive production should be avoided. Accordingly, the best forms of incentives to encourage employment in these countries would be through giving, for example, tax credits to firms that employ low-paid workers, and through shaping investment incentives to favour machinery and equipments that operate in combination with large numbers of unskilled or semi-skilled workers. For taxation to promote saving, he suggested the taxing of consumption and foreign trade rather than income, profits and wealth (Goode, 1984, pp. 243-247).

According to the World Development Report (1988), the quality of governments in the developing countries to foster growth and achieve satisfactory results, will be limited by the following factors: firstly, the ability to impose a prudent fiscal policy, i.e. to raise additional revenue in a cost-effective way and to cut spending, where necessary, in the least damaging way; secondly, the efficient mobilization of revenue should be guided by reducing transaction costs and avoiding the sharp rises in prices, which in turn will cause efficiency losses; thirdly, priorities of public spendings should be shifted from low to high priority areas; and finally, the administrative capabilities should be greatly improved (World Development Report, 1988, p. 52).

3.2.5 Economic Stability Criterion of Taxation

The stability criterion of taxation, is one of the most important aspects of fiscal policy in developing countries. It calls upon managing, in an efficient manner, the public sector's deficit; the excess of its spending over its revenue, and controlling inflationary pressures, as well as keeping them within reasonable limits. The origins of public deficit and instability, as illustrated by Goode, include: the variation in investment levels, both by private and public sectors; the fluctuations in exports due to changes in external demand; the deterioration in the terms of trade due to increases in prices and volumes of imports relative to those of exports; the variations in weather and natural conditions; improper uses of fiscal and monetary policies; and political unrest. While he considered the first factors as the major causal elements of fluctuations of output in the industrial countries, he regarded the others as the significant sources of instability in the low developing countries (Goode, 1984, p. 260).

In theory as well as in practice, the widely accepted policies to reduce the fluctuations in output levels and maintain public deficits at a level that is consistent with macroeconomic objectives, are by employing either fiscal or monetary policies, or a combination of both policies. The fiscal policy is without doubt the dominant means to increase government receipts and to offset the fall in private savings and investments. This policy, in particular, is central to the Keynesian interpretations, which favour the interventions of governments to increase their receipts during a boom, and to reduce them during a slump, thus offseting the fall in private income and spending when output falls. Such a fiscal policy is referred to as a compensatory fiscal policy for fluctuations in aggregate demand levels. Monetary policy, in regards to this approach, is assumed to be accommodating, that is, to allow changes in money and credit so as to avoid interference with fiscal effects (Gillis, 1987, p. 315).

As argued by Goode, the possibility of a compensatory fiscal policy in the developing countries, is more limited than in the industrialized countries due to the differences in the origin of fluctuations and to economic characteristics. The appropriate strategy for a primary-producing country, therefore, is to cope with crop failure and cyclical declines in the terms of trade by combining a strategy of building up foreign exchange reserves during periods of prosperity together with policies of reducing or stabilizing government expenditures. He explains his view thus:

> "A supporting fiscal policy could combine variable revenues from export taxes with stable government expenditures. When export earnings were large, because of high prices or a good crop, part of the proceed would be captured by export taxes. When export earnings were small owing to low prices or crop failure, export tax revenue would be reduced (Goode, 1984, pp. 262-63).

As to the effectiveness of exports in maintaining stability in the developing countries, Buchanan and Ellis (1955) are of the view that the economic stability of a primary producing country should not be isolated from a stable world economy, since its exports and trade are strongly tied to world trade and the readiness of industrial countries to cooperate with the primary producing countries by stimulating their demand at reasonable prices.

> "Undoubtedly, the best remedy agaist the vulnerability of primary producers would be the stabilization of domestic economic activity in the chief industrial nations. But until some measure of stability has actually been achieved, one need not be surprised if primary producing countries elect to follow a conscious ploicy of diversifying exports, purchasing some measures of stability by some sacrifice in export yield. This policy, in turn, is subject to severe limitations, which cannot be pursued here. But if no policy for stabilizing export yields succeeds, the agricultural exporting countries are likely to thrown by depression into devaluations, exchange controls, quotas and embargoes. If the agriculture of the underdeveloped world is to flourish and contribute to economic progress, the industrial nations will need to cooperate in stabilizing the markets for the great international primary products" (Buchanan and Ellis, 1955, pp. 255-56).

The suitable fiscal policy for stabilization and adjustment, according to the World Development Report (1988), is the one which maintains the public deficit at a level which is consistent with other macroeconomic objectives, namely, controlling inflation, promoting private investment, and maintaining external creditworthiness. Such a policy is referred to as a prudent fiscal policy, and in accordance with it the following practices should be avoided: overreliance on foreign borrowing since it can appreciate real exchange rates and widen current account deficits; overreliance on domestic borrowing since this means high real interest rates and falling private investment; and overreliance on money creation since it may prompt higher inflation (World Development Report, 1988, p. 55).

3.2.6 Equitable Redistribution Criterion of Taxation

Equitable distribution, like the growth and stability criteria, is an important aspect of taxation in the developing countries. In connection with the issue of equitable distribution, however, the aim of a tax system may be interpreted as a direct increase in the relative share of income by the poor, the alleviation of poverty, and a reduction in the income and wealth of the rich. The distribution could generally take the form of a tax-transfer, subsidies to consumer goods, or through an equitable allocation of government expenditures (Musgrave, 1986, p. 96).

The main approaches to equitable distribution which have attracted support of tax specialists, ranged between emphasizing the progressive taxation of income and wealth which are seen as major sources of inequalities, and the appropriate allocation of government expenditures in the interest of the truely needy people. The first approach, however, is among the major themes of Kaldor's proposals for taxation in developing economies. He regarded the presence of inequalities in the distribution of income and wealth in the developing countries as responsible factors for creation of excess demand for luxury imports and lavish consumption which in turn will reduce the taxation potential, retard economic growth, and generate political instability and social discontent. To avoid such consequences, a tax on wealth and a progressive income tax system are proposed to be as appropriate strategies to improve distribution and achieve objective goals of equity (Kaldor, 1965, p. 173).

The other approach to equitable distribution, suggests that the developing countries should not focus on tax transfer, subsidies, or progressive taxation, but more importantly to concentrate on the types of expenditures and services which might help people to obtain their basic needs, and assist in achieving long run growth objectives. This approach, however, has recently been under the consideration of some recent writings by Goode (1984), Newbery (1987), and also by the World Development Report of 1988. In discussing the problems of equitable distribution, Goode, suggested a redistributive budget which finances expenditures for the improvement of human capital and earning capacity rather than expenditures to supplement or subsidise current consumption. Accordingly, a government that is concerned about equitable distribution should consider whether its expenditures can be shaped to serve further objectives or not. Therefore, he regarded expenditures on education to be especially promising since they will improve the earning capacity in the future. Other expenditures encouraged by him, are health services and sanitation. These expenditures should be skewed towards the basic services, e.g primary education, with particular attention to the rural areas (Goode, 1984, pp. 290-95).

In compliance with the World Development Report of 1988, a government's concern in spending should focus on improving the resource allocation aspects by shifting from low to high-priority areas that can support long-term growth and poverty alleivation objectives. These areas cover the provision of goods and services with large external benefits to society, such as primary, basic health care, and immunization, as well as the provision of basic complementary infrastructure, including electricity, water, transport, communications and fundamental research. In addition, governments should also be involved in providing public goods that benefit all citizens, such as law and order and national defense . Elsewhere, the case for government involvement is weaker on both equity and economic grounds (World Development Report, 1988, pp. 113-120).

3.3 Tax Compostion and Development

3.3.1 An Overview

In the light of the issues raised in the previous discussion, this part will focus on the taxation structure in theory and practice with special reference to developing economies. Generally, the shape of a tax policy in an economy changes with the developing stages of economic growth. In the early stages of development (when agricultural activity is in predominance), the difficulties of having a comprehensive tax base through manipulating income tax, make land taxes, commodity taxes and taxes in kind vitally important. Commodity taxes on imports and exports, as they are visible and readily identifiable, especially when the movement of goods converge on a few ports, have always been the major contributors to the total revenue yield from taxation. Personal income taxes and taxes on business, on the other hand, were narrowly applied and limited to the salary income of civil servants and employees of large firms, as well as to profits of few firms and companies which keep adequate records and accounting books. As the economic organization develops and production and sales establishments become larger, the scope of the taxation structure can be broadened and a much wider range of tax bases will become available (Musgrave, 1987, pp.243-44).

A tax structure, whether in an advanced economy or a low income economy, must be stable. The stability of the tax system is a necessary condition for business and for individual taxpayers to plan their affairs with confidence . One cannot hope to achieve any stability in the tax structure unless there is a combination of taxes which command a fairly wide political consensus among political groups. This does not mean there must be complete political agreement on all taxes, but the tax structure must be wide enough and sufficiently flexible to have a stable framework to operate within (World Development Report, 1988, p. 55).

3.3.2 Tax Classification: Direct Versus Indirect

Generally speaking, a tax may be either direct or indirect, depending on who bears the burden or how it is collected. It is said to be direct when it is imposed directly on property or income, and indirect when its burden is transmitted to a person by making him pay extra for certain goods or privileges.

As Hicks (1946) has pointed out, considerable confusions exist in the terminology of tax classification. The distinction most frequently made is between direct and indirect taxation. A direct tax is said to be assessed or levied directly on the ultimate taxpayer from property, incomes, or profits. An indirect tax on the other hand is said to be levied through some third party (such as a wholesaler). So income tax which is assessed on the income receivers counts as a direct tax, whilst sales taxes, value added tax, and other taxes collected from the consumers of the taxed commodities through a third party count as indirect taxes. The division of taxation into direct and indirect is in essence an administrative one, but in practice it has served both administrative and economic purposes. According to Newbery, the distictive difference between direct and indirect taxes is not on what is taxed, but on how it is taxed. It is direct when the tax rate is individually specific, and indirect when it is not individually specific (Newbery, 1987, p. 176).

Direct taxes, generally, depend on production factors' income and property income. These incomes include personal income from wages and salaries, corporate income of business entrepreneurs, and rental income from land and houses, as well as direct taxes on property and wealth. These taxes should be imposed so that they interfer as little as possible with the individuals' interests. Indirect taxes, unlike direct ones, are levied on purchase, use or enjoyment of a particular goods or service. They may also be assessed on the capital value of good, e.g. purchase tax and value-added tax, and also on international trade. The developing countries, however, rely heavily on these taxes which account for approximately 75 percent of their total tax revenue (World Development Report, 1988, p. 80).

3.3.3 Direct Taxes

These taxes fall directly on capital as a permanent source of income, which depend mainly on factors of production such as: land (rents), labour (wages and salaries), business profits and other incomes from wealth and property transfers. The amount of revenues accruing from such sources depends on the efficiency of product, and their effective contribution to the capital accumulation process is strongly related to the assessment procedures and also to the clear definition of taxable income. Direct taxes on incomes are usually levied at a progressive rate; a tax is generally said to be progressive if tax liability (T) as a proportion of income (Y) rises as income rises; that is $T = T(Y)$.

The principal components which form direct income taxes in practice are: the personal income taxes, including wages and salaries, the corporate income, and taxes on rents, property and wealth. The contribution of these taxes to the total tax revenue, however, is estimated in 1987 to be equal on average to about 30 percent in the developing countries and 40 percent in the industrialized economies

(World Development Report, 1989).

(i) Personal Income Taxes

These taxes have been considered as the best forms of taxation for they accord best with the ability to pay principle. They also take account of the taxpayers' needs as indicated by the number of their dependents and other personal circumstances. For example, in the determination of the exemption limits and tax allowances, the basic needs required for the maintenance of the income earners should be considered. Generally, these taxes are adapted to progressive rates which vary between an initial rate of 5 to 10 percent to a top rate which occasionally exceeds 90 percent (Goode, 1984, p. 106).

In most developed countries, personal income taxes, namely taxes on wages and salaries, are among the major source of government revenue. In the OECD countries, the contribution of personal income taxes in the GDP and in the total tax revenue, in 1981, is estimated by Tanzi, to be equal to 12 and 32.8 percent respectively. In the developing countries, however, these sources do not occupy the central position in contributing to the total tax revenue although they are an important part of their tax system. From a survey conducted by Tanzi for eighty-six developing countries in the early 1980s, the share of individual income taxes were estimated to account on average for 1.9 percent of the GDP and for 10.3 of the total tax revenue (Tanzi, 1987, p. 224).

In practice, the main difficulties in assessing personal income taxes, especially in the developing economies, are, to a large extent, related to one or more of the following factors: firstly, it is very difficult to reach by income tax wages and monthly income of those hired for limited periods or those who work for only temporary periods of employment, e.g. indoor labour. The hard-to tax groups such as small retail establishments and professionals (lawyers, engineers, doctors, etc.) are also of particular importance in the developing countries. The second problem is related to the determination of the income unit. For example, in the case when the wife is working as well as her husband, the difficulty which may arise is whether to treat them as one tax unit or to tax each separately. Also with regard to the family size consideration, the question is whether a tax allowance should be given for each child, and if so how much and in what form. Other difficulties are usually related to the cost of administration and how to evaluate some incomes in kind such as the additional allowances for transportation, medical care, housing and others (Musgrave, 1987, p. 253).

For the personal income tax to become an important revenue source in the developing countries, Goode proposed the following conditions to be maintained: first, the existence of a predominantly money economy or high degrees of monetization; second, a high standard of literacy; third, prevalence of honest and reliable accounting; forth a large degree of voluntary compliance on the part of taxpayers; fifth, a political system not dominated by wealthy groups acting in their self-interest; and finally, the availability of an honest and reasonably efficient administration. On that account, he concluded that governments in the developing countries should not count on making the individual income tax a major revenue source (Goode, 1984, p. 103).

(ii) Corporate Income Tax

The term 'corporation', as it is usually defined for taxation purposes, covers the income of a variety of business enterprises which have a legal personality distinct from their owners. The corporate income taxes are justifiable as charges for the privilege of doing business in the corporate forms, which make possible the assembly of capital from many investors and large-scale activities. These taxes are also needed to prevent retained profits from escaping taxation, because they would not be included in the income of shareholders. Furthermore, these taxes are the only possible means to collect taxes from the profits realized within a country's territory to non-resident shareholders. The taxable income here is usually defined according to the general accounting systems and it covers both net profits and dividends. According to McCulloch, these taxes could be used to assist in capital accumulation and economic development, but their effects should not be allowed to impair the means of production. In order for taxes based on profits not to lead to high prices or evasion, all profits should be universally taxed (McCulloch, 1975, pp. 78-81).

In the developing countries, these taxes are rather more important than the taxes on the incomes of individuals. This is the reverse of the situation in the industrial countries. As estimated by Tanzi (1987), these taxes account on average for 3.1 percent of GDP and for 16.5 percent of total tax revenue for a sample of eighty-six developing countries. Generally, the corporation income tax applies relatively lower rates than in the case of personal income tax. According to Goode such a low rates will not discourage investment from abroad. He suggested that governments in the developing countries should not try to choose rates higher than those prevailing in the main industrial countries so as to attract foreign capital. Regarding the suitable tax rates to be employed to corporate income tax in these countries, he is of the view that high and progressive rates should be avoided since they would tend to discriminate agaist large companies and risky investments.

Instead, he recommended a moderate flat rates to be applied to large or small corporations so as not to discourage productive investment or to cause new investments to be directed towards incorporated enterprises, real estate, and other uses (Goode, 1984, pp. 111-14).

According to Musgrave (1987), investment incentives may include accelerated depreciation, investment credits, as well as tax holidays for the early years of the investment. To achieve regional balance and rural development, he considered employment-based incentives as more appropriate policy than capital-based incentives. With regard to the treatment of public enterprises, he objected the policy of exempting public enterprises from the regular tax regime since such a policy will reduce their competitive advantages with private firms and also promote poor accounting practice (Musgrave, 1987, pp. 257-59).

The effect of taxes on profits when applied to agricultural producers is somewhat different from that when applied to industrial producers. For example, when a tax is applied exclusively to the profits of agricultural produce with high rates, farmers would not be able to pay more incentives to the labour force or to introduce further mechanisation and modernization of their means of production. This, however, may lead to a reduction in agricultural input factors and thus to a decrease in the total agricultural output. For the influence of the tax to be wholly or partially neutralized by an increase in agricultural produce and progress in agriculture, moderate rates should be applied to agricultural incomes (McCulloch, 1975, 80-81).

(iii) Taxes on Rental Income and Property

These taxes are forms of selective wealth tax. The rent taxes in theory consist of the portion of revenues paid for the natural and inherent powers of the soil, and for the use of buildings, roads, drains and other improvements made on land. This definition cover both agricultural property and urban property (McCulloch, op. cit., p. 52). In general practice, taxes on rental income are levied on the actual income from rented properties, excluding land and agricultural property. The arguement for the exclusion of land and agricultural properties, is directly related to the possibiltiy of obtaining information on land and the political power of property owners and the difficulties of assessing the variations in the fertility of agricultural properties (Goode, 1984, pp. 134-35).

According to Kaldor, land and agricultural properties, especially in the developing countries, should be included since they are the only levies to enlarge the supply of savings for economic development as in the case of land taxes in Japan and agricultural taxation in Russia. He, therefore, suggested taxes on rental income to vary according to the potential fertility of individual pieces of land in relation to the national or regional average as well as to variations of annual rainfall and the site of the land. The coverage of this tax could also be expanded to include rents on houses, fees on roads and other outlays for the profitable use and improvement of a land, as well as to cover all sorts of land property which have been lawfully acquired and equally entitled to the protection of the state. (Kaldor, 1965, pp. 177-180).

Generally, taxes on property are imposed on the net stock of possessions by, say, a farmer or manufacturer. These taxes, however, need to be administered in small doses since they are usually imposed at a low rate. One of the advantages of following a low rates tax policy on property is that the evasion would be at a minimum and also the owner would not tend to underrate the amount of his property. A property tax would affect capital, whether employed or not and the value of property assessed during the course of taxation, to a large extent, depends on the oath of the contributors. Not all property in practice, is seen and detected by tax officials but for the tax to satisfy equity criterion of taxation, taxes should be laid on all sorts of property. More treatments of these taxes will be considered later in the discussion of the general case for a net wealth tax.

In countries with a low level of development, and where manufacturer and commerce have made little progress, the rent taxes are very necessary as revenue sources. In the developing economies where agriculture is the dominant activity, they are the most viable sources for direct taxation. However, among the developed economies where urbanisation is increasing very rapidly, taxes on houses are relatively wide-spread. Such taxes have been considered as convenient to charge since they can easily be identified and also are justifiable as taxes for benefits that property owners receive from urban services. The tax on land and also on property is applied at a proportional rate to the total product of the land or the total rent in case of houses. The properties on which taxes are levied are those which are used for productive purposes and yield revenues. (Musgrave, 1987, p. 261 and McCulloch, 1975, p. 71-77).

According to taxation principles, taxes on rent follow to some extent the equity and neutrality criterion of taxation but might not always be compatible with the efficiency of administration criterion. From the equity point of view rent taxes could easily help in income distribution as the payment of the tax is directly linked to the capacity of the taxpayer. The is also justifiable as a charge for the benefits that property owners, especially in the urban areas, receive from government services (Goode, 1984, p. 135). The neutrality of the tax is also satisfied as the tax base excludes all necessary expenses, thus does not lead to the increase of production cost or the distortion of prices. With regard to the efficiency of administration aspect, taxes on rent are objectionable for they require a high quality of staff to assess the cost of improvement on the land and to link that cost to productivity of the land. According to McCulloch, the main objection to taxes on rent relate to the difficulties of differentiation between the portion of the rent of land which is paid to for the use of the land and that for improvements. In his words, he states this view as follows:

> "In a practical point of view, taxes on the rent of land are extremely objectionable. We have seen that it is quite impossible to seperate rent into its elements, or to say how much is paid for the soil and how much for improvements. In cases of this sort, no two agriculturists ever arrive, unless by accident, at the same conclusion; and the best judges affirm that the distinction may be looked upon as impracticable (McCulloch, 1975, p. 55).

3.3.4 Difficulties of Income Taxation

Generally, the main objection to higher rates of income taxation is that they require a constant interference and inquiry to assess them. Even if there is a proper assessment, there would evidently be a room for doubt, evasion and fraud in the valuation of the different sources of incomes. With reference to professional incomes, the difficulty of having a fairly taxed income when uniform rates are established, might have resulted from the difference in ages or health conditions. Furthermore, the determination of exemption limits in the case of income tax on wages and salaries requires more information as to the minimum level of living and to the individual's marital and dependency status. In the developing countries, the serious difficulties in defining an individual's income satisfactorily for tax purposes, make implementation very difficult in practice. It must be pointed out also that these taxes, in the developing countries, form generally a very minor part of total government revenues.

Although direct taxes on income face many problems in their course of assessment, they often have some advantages over indirect taxes in that the bases of the tax are more stable, e.g. taxes on capital and labour are more stable than taxes on consumer goods. Other advantages are that they make every one fully aware of the exact amount of the demand made upon him or her by government. As the burden of the tax falls directly on the taxpayer he or she will be more responsible and eager to benefit. Also government will be more responsible in the usages of the revenues of taxes originating in direct taxes since if not used properly they might lead in some cases to political crises and to social instability.

3.3.5 Indirect Taxes

These taxes are levied on the purchase and use of goods. They may also be assessed on the value of goods in the case of the value added tax, which is applied at each stage of the manufacturing process when goods are sold. A tax on a particular good will have effects on the general price level and thus on costs of production. The effect on the production costs occurs as a consequence of the rise of the supply price of consumer goods which feeds back into the cost of the production factors.

In practice, the rates of indirect taxes applied on commodities distinguish between goods for consumption purposes and those for production. Goods for consumption are usually taxed at higher rates than those for production use. However, with some goods, like petrol, which are both consumers' and producers' goods, their treatment generally differs according to the ways they are used. It must be pointed out here that indirect taxes on production factors are generally criticized for they push up the production cost and also for administrative difficulties when different rates are applied.

In the developing countries, especially at the early stages of their economic growth, the role of indirect taxes is the major source of revenues for financing both the development programmes and the government expenditures; they are very convenient both from political perspective and revenue considerations. From the political point of view, indirect taxes are less harmful to the stability of the system since their effect is not directly felt by the taxpayers but (voluntarily) paid by them when buying the goods at the market price. From the revenue point of view indirect taxes are generally easier to collect, especially when the flow of goods converge to few ports or distributors. These taxes can also be used to correct irrational behaviour by consumers by raising the tax rates on particular goods and also to encourage savings, and thus stimulate the capital accumulation process (McCulloch, 1975, pp. 155-72).

Of all indirect taxes, for most of the developing countries, import and export duties generally constitute the largest source of tax revenue. Taxes on consumption and local production contribute a much smaller share. The heavy reliance of revenues on imports and exports in the developing countries is not a mere reflection of the vital role of the foreign sector in the economy but also of the ease of collection and control of the tax. The following discussion will consider the analysis of the structure of indirect taxes and their role in the revenue generation process.

(i) Import Taxes

These are usually paid by the consumers of the articles on which they are levied but collected through the wholesalers at the ports of its arrival. Import duties, especially when domestic production is very low to meet the need of individuals, constitute by far the principal tax revenue among most developing economies. The role of the tax usually decreased with the increased progress of industrial development and import substitution. Generally, these taxes afford convenient handles since they are imposed at the points of entry, i.e. when goods pass through ports or over land borders.

Taxes on imported goods, normally, are applied on an ad-valorem basis. In some cases particular items are subjected to specific treatment. The rates generally are designed to serve either the protective purposes of the economy or for revenue purposes. The rates are high on luxuries and low on necessities and intermediate goods for local production. Total exemptions from import duties might be granted on some particular goods, mainly goods for the development progress. In relatively developed economies, the protective purposes of import taxation are one of the guiding policies. So in order to protect the growing domestic industries, import duties are said to be applied at higher rates on the imported items which could be produced locally. In some cases the import protection policies are criticized when the domestically produced goods gain no advantage over the imported ones. Also the competitiveness of the domestically produced goods might negatively be affected. Generally, such taxes are detrimental to international trade, which often reduces the gains from their imposition, e.g. they might be banned from imports when their prices rise to high levels.

In the developing countries import duties are by far the single most important revenue source. As estimated by Tanzi (1987), they account on average for 4.2 percent of GDP and 25 percent of total tax revenue. However, although taxes on imports do not conform nicely to the ability to pay rule, they are very attractive to governments for they are easier to administer. According to Goode (1984), the creditability of import duties is not only because they are an outstanding example of the use of a tax handle, but also they might be used as a substitute for enforced direct taxes on income or consumption by the use of selective taxes on luxury consumption items to reach high-income groups. He favoured selective taxes to be imposed both on imports and domestically produced as practical means to tax consumption (Goode, 1984, p. 147). Musgrave (1987), however, is also of the view that sales and excise taxes should be integrated into a uniform rate of tariff structure so as to equalize effective protection. To tax items that weigh heavily on high-income budgets, he suggested a policy of ad valorem excise taxes to be imposed on such items. He generally denied the idea of surcharges to tax luxury imports and restricted its practice only in the case of infant industry where they are deemed necessary (Musgrave, 1987, p. 260-61).

(ii) Export Taxes

These taxes account for a much smaller share in government revenues compared with import taxes. In the developing countries, where export of primary production is the main source of foreign currencies, these taxes are levied at relatively low rates so as to favour export activity and motivate small producers, especially farmers. According to Tanzi's estimates (1987), these taxes account on average, in the developing countries, for about 1.1 percent of GDP and about 7 percent of total tax revenue. However, although export taxes continue to play a significant role in many developing countries, they have a much more limited importance than import duties. The rates are normally levied proportionally on the exported items. Lower rates of taxes on export are generally preferable to higher rates since the later would weaken the competitive position of the domestic producers. Export taxes, like import taxes, are also recommended for their ease of collection and administration.

Policies for exports are generally governed by the aim of securing stability in the volume of total exports and providing incentives for primary producers, namely farmers in the developing countries. The responses of farmers in the developing economies are very high to world prices and they will suffer more when price levels of primary agricultural produce fall thus decreasing their earnings. Besides the revenue aspect of exports, export policies could also be used to promote domestic industries. By applying higher rates of taxes on primary exports which could be processed domestically, the local development of industries will be supported.

The main advantages of export taxes, as considered by Goode (1984), are that they are especially convenient to tap the cash incomes of small farmers who could not be reached by income taxes owing to their lack lack of accounting records. Beside the administrative simplicity of export taxes, they can also be used to finance public deficit and provide a suitable tool for economic stability. Furthermore, they can be used to hold the domestic prices of exports below the external price and thus can work as a stimulating factor to increase exports of primary production as producers strive to maintain their incomes. It is assumed here that primary producers will behave as price takers and therefore will respond positively to any changes in prices (Goode, 1984, p. 172).

(iii) Taxes on Domestic Consumption and Production

The main justification for the imposition of these taxes is that they form a lucrative source of revenue that can be conveniently tapped by the government in the case of the tax collection at the point of manufacture. The nature of these taxes differs in accordance with the stage of economic progress; while excise tax is the dominant tax on consumption and production in the least developing economies, sales taxes, mainly value added tax, are widely applied in the industrialized economies.

Excise taxes, particularly in the developing economies, are a very important source of revenue especially when it is felt that import substitution may lead to an appreciable fall of revenue. The tax rate varies with respect to the market situation of the particular goods: luxury goods are generally subjected to higher rates whereas necessities are subjected to lower rates. The average contribution of excises to total revenue, as calculated by Tanzi (1987), is about 12 percent of total tax revenue and 2 percent of GDP. Generally higher rates of excise taxes are not recommended since they lead to more evasion and destroy the competitiveness of the goods produced locally. The coverage of excise taxes in the developing countries is relatively difficult as some production is not reported. Also it is difficult to control large numbers of small industries and other local industries.

Although prospects for increasing direct taxes are limited in developed economies, sales taxes, mainly the value-added taxes, are now becoming an important source of revenue. Value-added tax is, in essence, a single tax on the value of goods consumed in the home market and it is paid at each stage of production and distribution of goods. In Britain these taxes were introduced in 1973, with standard rate of 10 percent on all goods and services except e.g. food stuffs and children's items, this rate now increased to 15 percent on all distributed goods and services, though food and and children's clothing remain exempt. According to Stiglitz (1986) value-added tax can better replace income tax if a uniform rate is employed at each stage of the production process, i.e. equivalent of consumption and wages taxes. In advocating the VAT, Kaldor regarded it as a proportionate direct tax on the gross income generated by enterprises or as uniform tax on the national expenditures which represent consumption. Another advantage added by Kaldor to the VAT, is that, the tax being self-reinforcing it can be used as a weapon against tax evasion (Kaldor, 1967, p.214-15).

In theory the main arguments for indirect taxes are directly related to the ease of assessment and revenue yield. As advocated by McCulloch, indirect taxes are the cheapest means of conveying information for both the producers and consumers, since the payment of these taxes is to a considerable extent voluntary. He argued against employing high duties on commodities as they will increase the tendency towards evasion and smuggling and thus to violation of laws (McCulloch, 1975, p.155). Stiglitz, however, is of the view that indirect taxes can easily replace income tax if they are applied with uniform rates and in small portion on all commodites (Stiglitz, 1986, p.361). Ramsey in his general equilibrium approach to taxation argued that a uniform structure of indirect taxes is the most suitable policy for taxation from the economic point of view. As he has stated:

> "The problem I proposed to tackle is this: a given revenue is to be raised by proportionate taxes on some or all uses of income, the taxes on different uses being possibly at different rates; how should these rates be adjusted in order that the decrement of utility may be a minimum? I propose to neglect altogether questions of distribution and consideration arising from the differences in the marginal utility of money to different people; and I shall deal only with a purely competitive system..." (Ramsey, 1927, p.47).

However, in literature there are other lines of arguments against indirect taxes. Kaldor, for example, does not regard indirect taxes as a good redistributive instrument, even differentiated according to luxuries and necessities. Indirect taxes according to Kaldor's view can only distribute the burden differentially between individuals in a very clumsy and uncertain fashion and regarded them as less efficient taxes although they are commonly felt to be a less painful way of raising revenues.

Instead he suggested a tax on what people consume rather than on what people produce so as to overcome the administrative infeasibility of income taxation that had led to indirect taxes being widely adopted (Kaldor, 1955, pp.21-4).

3.4 Wealth Taxation: In Theory and Practice

3.4.1 Purposes and General Scope

This section is intended to investigate the general case for a wealth tax and review some of the recent experiences of this type of taxation. It is hoped also that the lessons which might be gained from discussion will help in developing the practice of *Zakah* and in understanding the general features of its structure. The arguments for and against a wealth tax will also be considered with more elaboration on their economic impact. A tax of this kind has been successfully levied in a large number of countries including the whole of Scandinavia: Sweden, Norway, Finland, Denmark and Iceland; and in West Germany and the Netherlands. In the United Kingdom, a proposal for an annual wealth tax on the rich and on the transfers of personal wealth have increasingly been debated by policy makers. In particular there are many in the British Labour Party who argue for such a tax. In the Labour Party Manifesto for the General Election in 1970, wealth taxes were advocated as an essential reform to the taxation structure, though this was not implemented by the 1974-79 Labour Government. In the developing economies, policies for the introduction of a wealth tax are also found in India, Pakistan, Sri Lanka, Colombia, and Urguay.

A tax on wealth is usually assessed on the value of the net assets, ie. the value of an individual's stock of assets less liabilities. This tax covers most personal possessions including the value of all financial assets of stocks and shares and bank balances plus the value of all physical assets: agricultural land, houses, cars, jewellery and other personal affects. In some individual countries such as the United States, the value of the tax is normally calculated using the gross value of assets as a base and not the net value. The tax, in principle, is calculated annually at a particular point of time. It takes no account of how the possessor acquired the wealth or how to use it.

Generally, the tax is advocated on the grounds that it offers more opportunity of achieving greater equity without the adverse effects on incentives commonly supposed to be associated with income tax policy. The introduction of the policy, however, cannot be done overnight or through sweeping radical measures, but its imposition can take different forms which vary from one country to another. It is, in some circumstances, introduced by a gradual substitution for income tax, in other cases it is by a supplementation to income tax. Income tax is theoretically fair, especially if progressive, but there is often a lack of a proper information system in addition to the administrative difficulties usually associated with its collection. It is not easy to identify all sources of income. A system whereby everyone contributes to the state in proportion to revenue which he or she enjoys under its protection may be desirable, but it is difficult to prevent evasion. The ability-to-pay is nevertheless the deterministic factor of income tax policies. A wealth tax strategy, on the other hand, provides additional new cases for personal taxation which covers all types of assets and income in kind owned by individuals. Hence the assets owned by an individual is the important factor in designing a tax and not merely the ability-to-pay as in the case of income taxation.

Certainly what each individual ought to pay is, in wealth taxation, a matter of great importance. The time of payment, the rates, the manner, and the quantity to be paid ought to be clear and plain to the contributor. The rates generally are very low in comparison with income tax and so the tax takes out of the pockets of the people as little as possible in proportion to their realized assets. One of the advantages of a wealth tax is that individuals will tend to hold wealth in forms which yield more income rather than keeping wealth in idle forms or investing it in productive uses which yield little or no income. The contributor, by holding wealth with relatively high yields would be in a better position to pay the tax, at least he would be able to compensate for the tax. The tax, therefore, will help the process of developing the stock of productive wealth. People may prefer to hold income yielding financial assets rather than household possessions or jewellery or other items. Politically, the tax is also proposed to reduce to the minimum the concentration of power in the hands of a wealthy few without discouraging the ambitious and competent. With reference to the voting process and the representation system, the response of the people towards the tax is immediately politically possible.

The relevance of a wealth tax, namely an annual wealth tax, to our study and to the general case of the Sudan, is of great an importance. The way in which governments have fallen into the habit of pursuing incompatible objectives such as economic growth and equity in distribution, shapes the main frame of the public policies and forced the policy makers to search for the renewal of the tax structure and to modify it to make it more popular. The introduction of a wealth taxation in the national economy, in the recent time, began immediately after the declaration of the Islamic Shaira Laws in the early 1980s. Accordingly, the *Zakah*; an *Islamic* levy on *Muslims*'s wealth and financial holdings, become one of the challenges for any further tax reform (the discussion of the *Zakah* will be considered in more details in the next chapter). The common features between an annual wealth tax and the *Zakah* policy are that they are both levied with relatively low rates and the tax base for both depends on possessions and financial holdings. The rates being low, the incentive to evade or to avoid the tax will be very limited.

3.4.2 Forms of Wealth Taxes

The various types of a wealth tax which have been considered in economic theory include the tax on the transfer of wealth and on the holding of wealth. The tax on the transfer of wealth is levied once, when the wealth is transferred from one individual to another. This covers inherited wealth and gifts received by individuals. The tax on the holding of wealth is levied on all types of personal wealth when a specific amount is reached. The tax base covers the real property, agricultural property, household possessions, financial assets and bank balances. The tax is paid on an annual basis and at a particular point of time.

A proposal for a wealth tax reform in the western economies, including the United Kingdom, has fallen into three main approaches under the heading of wealth distribution: the first one stresses the use of a tax on the transfer of wealth in order to have more equitable distribution of wealth. The second policy emphasises the introduction of a comprehensive annual tax on wealth which covers all types of personal holdings. The third approach follows a middle way between the first two approaches and advocates a simultaneous implementation of both a tax on the transfer of wealth as well as on the holding of wealth.

Among the main advocators of a tax on the transfer of wealth are Sandford and Atkinson. Atkinson (1983), while discussing the reform of wealth taxes in Britain, puts more emphasis on taxing the transfer of wealth rather than taxing the holding of wealth. He is mainly concerned with the distribution of inherited wealth which is often regarded as the major causal factor for the unequal distribution of wealth in Britain. He suggested for the reform of wealth taxation that the concern should not be with the distribution of wealth that people currently own but with the distribution of inherited wealth or the amount that people receive in the form of bequests and gifts in the course of their lives.

The main arguments for Atkinson to prefer a reform of wealth transfer to an annual wealth tax, are related to equity and administrative considerations. With regard to equity, he argues that a tax on the transfer of wealth would be specifically directed toward the distribution of inherited wealth and the amount of tax paid would not be influenced by the amount that a person had saved during his lifetime. From this point he considered the annual wealth tax is less suitable since it makes no distinction between wealth whether inherited or saved out of earnings. From the stand point of administrative difficulties, he regarded a tax on the transfer of wealth as less expensive to administer than an annual tax. This is because the wealth would only have to be valued once a generation rather than once a year. Further, the tax also might not require additional costs of administration as far as it aims at developing and modifying the existing estate duties with high rates of tax on the transfer of wealth at death replaced by moderate rates which are more likely to be paid. With the new reform, the tendency of families to avoid these estate duty rates by passing on their wealth earlier will no longer create administrative problems (Atkinson, 1983, pp. 171-195).

Sandford, in his proposal to reform wealth taxation, stresses much more the taxable capacity which wealth confers on its possessor over and above the income derived from it. A tax on wealth, as he suggested, is to supplement income tax and to bring equity to the tax system. Death duties, in that respect, are considered the most convenient of all wealth taxes:

> "Wealth taxes all suffer from the big administrative disadvantage of difficulties of valuation; but with death duties, valuation problems are minimized; the total amount of property to be valued for death duties is relatively small compared to the total personal wealth, ... The essential point about death duty is that it is levied at a time when the former owner has to part with the wealth anyway. Especially as inheritance is probably the most powerful force making for inequality in the distribution of wealth and is likewise a way of acquiring wealth which is generally unrelated to the merits or efforts of the recipients, there seems much to be said for making a wealth transfer tax the dominant instrument in the policy to reduce inequality of wealth" (Sandford, 1979, p.126).

He advocates a progressive rate of a tax on all transferred wealth, and the levy should take place at the point of time which associates the realized transfer of ownership. He makes no distinction as to the source of wealth, so the wealth, whether derived from effort or saving, is treated in similar ways. A wealth tax, unlike a wealth transfer tax, is levied regularly once every year on all types of property and is not just associated with a transfer of ownership or a flow of funds.

Kaldor (1980), in his proposal for wealth taxation, follows a different way from the one suggested by Sandford or Atkinson. His concern is mainly about the imposition of an annual wealth tax on all types of property owned by individuals rather than an irregular tax on the transferred wealth on the occasion of death or through gifts. The tax, similar to income tax, should be conceived as a progressive one, and levied at rates which are well within the total accrued from property, whether in the form of money income or physical income. For the sake of equity, as well as administrative efficiency, it is essential that the tax should be comprehensive, i.e. extending to all forms of property: agricultural property, bank balances, jewels and valuables over certain limits, and ownership of stocks and shares.

The full description of Kaldor's approach to a wealth tax reform is clearly stated in his tax report to the Indian Government in 1956. The essential purposes outlined by the report are: to raise the tax revenues by means of low rates of an annual wealth tax spread over a large tax base and to eliminate tax evasion through a comprehensive reporting system on all forms of property which yield additional taxable capacity to the taxpayers. For the tax to be more equitable, it is suggested to be levied at a progressive rate which should not exceed 2 percent for all types of property that are subject to the tax. This rate, however, is closely related to Keynes' minimum capital return which is 2.5 percent. The tax also is proposed to substitute gradually the high rates on income by low ones on all wealth which generate an additional taxable capacity to people. These low rates are assumed to cause less market distortion than raising the same revenue by concentrating high rates of tax on a few activities.

For the wealth tax, to comply with the objectives of taxation, he suggests the following to be met. Firstly, the tax should be based on a simple definition, avoiding, as far as possible, exemptions of various kinds. Secondly, taxes on wealth should be comprehensive, covering all forms of ownership which yield additional income to owners. Exemption limits on particular forms of property should also be well defined. Finally, the tax should help in self-checking and automatic reporting of other types of tax. In that respect, the tax is expected to stimulate more information about income which in turn might feed back into futher information about the owners of wealth.

The third policy suggested for a wealth taxation, combines the use of both taxes on the transfer of wealth and on the holding of wealth into the structure and reform of direct taxation. Professor Meade is one of the main advocates of this policy. In his proposal for the reform of direct taxation, he claims that a modern tax system must be constructed to include all types of wealth so as to be capable of use for vertical redistribution between rich and poor. Both wealth transfer tax and an annual wealth tax are considered, here, as a part of capital taxes which therefore should be included in any reform for direct taxation. No clear distinction has been made between the two types of tax. As he mentioned in a study by the Institute of Fiscal Studies (1978), 'A tax on the transfer of inherited wealth as it passes down from parent to child is in effect a periodic charge, levied once a generation on the holding of such wealth. In so far as this is the case it may be regarded as a capital tax like an annual wealth tax, but levied once a generation instead of once a year on the holding of wealth.'

The economic purposes of Meade's proposal is mainly to contribute to the economic growth by raising the size of revenues for state investment and also to encourage a wider dispersion of the ownership of property. The political objective of a tax on wealth is to develop the tax structure so as to command a fairly wide political consensus. As the high rates of income taxes on the rich will be reduced through a comprehensive tax on wealth, the clashes between the rich and poor will be minimized. The proposal, generally, assumed that taxes on the transfer are to be levied at a higher rates than those on the holding of wealth. The reasons for heavier taxation on the transfer of wealth are justified as follows:

Firstly, it is obtained without the sacrifice of leisure, whereas an annual wealth tax usually falls on wealth which results from a man's own effort. The second reason is that the ownership of wealth by inheritance and other forms of gifts confers benefits upon the owner without causing any negative effect on his consumption level or investment opportunities. Finally the taxing of inherited wealth and other forms of transferred wealth will assist in a more equal distribution of the ownership of wealth. An annual wealth tax, on the other hand, is proposed to be levied at high rates on the owners of large wealth and at low rates on persons who own little wealth. If this is implemented the high rates will give an owner of large wealth a tax incentive to transfer such wealth as soon as possible to persons who own little wealth. Generally, the main argument of Meade for preferring an annual wealth tax is that it might serve as a more useful instrument of control and monitoring of other taxes. The usefulness of an annual wealth tax as an instrument of control would be the greater, the lower the threshold at which the tax can become payable and the greater, therefore, the coverage of owners of wealth. Moreover as the tax is evaluated on an annual basis it is likely to cause fewer administrative problems than might arise in the case of taxes on the transfer of wealth, though this point must be debatable.

3.4.3 General Arguments for a Wealth Tax

Theoretically, wealth tax has been advocated on three main grounds: equity, economic effects and administrative efficiency. With regard to the equity principle, mainly horizontal equity, it is required that people of similar taxable capacity should be taxed by the same amount. Income is the best criterion of ability-to-pay as economic theory indicates, but income by itself is not enough since it does not cover all sources of income yielded to the possessors of wealth and income. The holder of wealth under the income tax regime will enjoy the advantages of security, independence and opportunity. As Sandford argues, the additional taxable capacity of wealth cannot be adequately covered by levying income tax at higher rates on income from property than on income from work. Kaldor in his explanation of the importance of taxing the capacities of people rather than their abilities, gave a simple example of the position of the beggar who has neither income nor property and the position of a man who keeps the whole of his wealth in the form of jewellery and gold. So judging their capacities by the test of income alone, the taxable capacity of both is nil. A further advantage of a wealth tax, particularly on the grounds of horizontal equity, is that the tax base will be widened and thus improve the distribution of the accumulated wealth in the society in favour of the poor classes.

The second argument for a wealth tax concerns its economic effect and the efficiency of resource mobilization. This argument, mainly, rests on a comparison of wealth tax with income tax. The advantage of a tax assessed on property value as against a tax assessed on income is that the former does not discriminate against the risky employment of capital. An income tax, by taxing the additional income, does not discriminate whether the additional income is obtained through risk bearing or not. Under the property tax case the tax levied is based on the net value of a wealth realized at the end of the year; it is not charged on whether property is invested in bonds with low yield, or in productive employment with higher yields, or even held in jewellery which yields no money income. The positive aspect of a wealth tax is that it imposes a charge on wealth regardless of the income from it. People thus will be encouraged to use wealth more productively so as the net value of their wealth would not be reduced through the tax. The holding of idle money balances which attract wealth tax are not encouraged under a wealth tax regime. The tax, by reinforcing the profit motives, means that the resources allocation would be more secure. As an example: a man with a piece of waste land, under a wealth tax policy, would pay an annual wealth tax even if it is left uncultivated. The landowner thus would be induced to develop his land or alternatively to sell it to a person who may cultivate it.

The economic role of an annual wealth tax in reducing inequality in wealth distribution is not less than its role in resource allocation. The distribution role of the tax can be achieved either by a limited sense of change or alternatively by a radical and extensive change. In the limited sense, as argued by Sandford, a combination of income tax and wealth tax will be imposed together. The wealth in this approach cannot be distinguished from income, but can be converted into an income tax equivalent. Thus a 5 percent wealth tax is equivalent to 100 percent income tax on wealth yielding 5 percent, or to 50 percent income tax on wealth yielding 10 percent or 25 percent income tax on wealth yielding 20 percent and so on. Accordingly, wealthy people could be either those with large incomes and little property or those with net assets of high value. The aim of the limited sense, as mentioned by Sandford, is to ensure that those who have avoided progressive income tax by moving into assets which yield capital gain and little or no income, are none the less heavily taxed. This approach, although it might not positively reduce inequality, would nevertheless check the accumulation of wealth. On the other hand, the radical approach to reduce inequality in the distribution of wealth could be achieved by direct imposition of a wealth tax. The argument for the use of a radical approach is in enabling certain policies to be effected in the community. Such action is assumed to create a more widespread sense of fairness and also seen as an important step towards reducing inequalities of wealth distribution.

The third argument raised in favour of a wealth tax is related to its contribution to administrative efficiency. One of the fiscal advantages of a wealth tax is that it generates data, which can be cross-checked with information collected by the revenue authorities, to tighten up tax administration as a whole and thus enable the reduction of tax evasion to the minimum. Kaldor (1980), has clearly stated this point in his report to the Indian government to reform the tax structure: "If taxes were assessed both on income and on property, by the same taxing authority, the administrative efficiency of the system is bound to be improved in consequence. The examination of a man's property ownership is bound to lead to his concealed income, and similarly the examination of his income receipts is bound to lead to the discovery of concealed property".

Other arguments raised for preferring a wealth tax, namely an annual wealth tax, is that it is more flexible in its rates than income tax. Politically, the low rates of a tax and its spread over a wide range of property reduces generally the clashes which might arise between rich and poor. So the tax will not result in conflicting social and economic objectives. Other advantages of the wealth tax which have been added by Professor Meade (1978), are that it is a useful instrument for indexing against inflation in the sense that the slices of wealth which will be subject to different rates of tax must be increased in money terms each year to keep in step with the general inflation of many prices.

3.4.4 Arguments Against a Wealth Tax

The general criticisms against taxes on wealth, and which may lead to their exclusion from the scope of taxation, are essentially related either to the practical difficulties of administration, or to their adverse economic consequences. From the administrative point of view, the most difficult problems against assessing taxes on wealth are: the difficulties of valuation, and the difficulties of discovering the true owners of property. In practice, the valuation of private business possessions, land and buildings, is not an easy task to administer in a proper, accurate manner. In particular, the valuation of some types of property and assets, such as jewellery, precious metals and other household possessions is very difficult for the revenue authority to identify. The discovery of a man's property in wealth taxation is also among the major administrative difficulties facing the tax authorities. The under-reporting of assets, mainly those with low yields, are the most likely area of evasion under a wealth tax. Other problems which relate to tax administration are how to determine the exemption level of a property. Politically, the precise level of wealth at which liability to the wealth tax should begin is ultimately a matter for debate. Also the automatic co-ordination of gifts and other transferred wealth into wealth tax revenue causes some problems to the determination of taxable property.

The second general argument against a wealth tax is that it may have some adverse economic consequences. As the tax base represents accumulated savings, the tax may reduce the incentive to save if it is not designed in a comprehensive and flexible framework. On the grounds of equity, it is argued that an annual tax on property may violate the equity criterion because not all property yields are income and in so far as the tax may force some individuals to make payments even if they have no income to pay it with. Generally the significant consequences of a wealth tax depend on the precise rates of the tax. So, high rates would almost certainly have an unfavourable effect on business confidence and private investment. The danger of a higher rate of the tax is that it will carry a strong incentive to discourage saving. Other disadvantages of high rates of the tax on wealth are that it will also encourage the rich people to emigrate if they can get their wealth out with them.

A further objection to a wealth tax system is that it requires to some extent a more comprehensive reporting system than that with respect to the capital gains tax and other similar taxes. Generally there is a very great difference between people's readiness to declare all items in connection with the tax and so their willingness to make a false declaration on some occasions leads to inaccurate public documents.

3.4.5 Wealth Taxation in Industrial Countries

On the international level, a wealth tax policy is not merely a recent fiscal innovation, but has been found since the early 19th century. Within Europe, wealth taxes have been established in all Scandinavian countries, West Germany and the Netherlands. In those countries, particularly those with large inequalities, the main aim of the policy is to reduce the concentration of wealth in a few hands and to raise the size of taxation revenues. Generally, the forms and purposes of the tax differ from one country to another and its application is essentially governed by economic and administrative factors. From the tax practices among the European countries, the common feature is that they are either substitutive or supplementary to income tax. The tax thus suggests low and flexible rates instead of high rates on income and investment incomes. The imposition of the tax is either at a progressive rate or at proportional rates of the taxable wealth. From the recent practices the most notable experiences of a wealth tax are the Swedish and German Cases.

(i) The Swedish Wealth Tax Case

In Sweden, wealth as a tax base firstly entered in 1910 as a part of income tax and then the tax acquired its own separate form from income after 1947. The main purpose of the tax was and still is, to take into account all additional taxable capacity that capital may bestow on it possessor. The tax applies to all individuals, resident and non-resident. The tax acts generally exempt all companies from paying an annual wealth tax, but non-resident companies are liable to pay the tax. The tax is levied on the net value of wealth which exceeds certain exemption limits. The tax is flexible and graduated from 1 percent to a rate of 3 percent on wealth at high levels. Certain classes of property are exempt for tax purposes. These cover life insurance policies, furniture, jewellery and household moveables. Assets for tax purposes are valued annually at the free market prices, whereas real properties are generally valued every five years on a capital value basis.

The administration of the tax is decentralized under the supervision of the National Council for Direct Taxation. The estimation of personal possessions included within the tax base is directly valued by the taxpayer. Other types of property are normally assessed by the tax authority. The tax authorities possess a wide power to obtain information as well as to penalize the tax evaders. On the administrative level, the link of the tax with income tax is very close and each feeds back information into the other.

From the findings of a study carried out by the Institute for Fiscal Studies (IFS) in 1978, the total contribution of wealth taxes to the total revenues for the Swedish case was estimated to 0.7 percent in 1974. The tax, although it might fall short of its ideal form by the theorist, was nevertheless superior in comparison with income and surcharge on investment income. This was particularly the case with respect to achieving horizontal equity. Generally, the experience is a good lesson in the wealth tax reform practice and it paved the way for the later cases to learn from.

(ii) The West German Wealth Tax Case

The German case, as the Swedish one, also has a long history which goes back to 1922 when the tax first became law. But, unlike the Swedish case which applies mainly to individuals, the German wealth tax is levied on both individuals and companies. The tax has a proportional rate structure, with lower rates than those found in the Scandinavian experiences and other European countries. A flat rate of 0.7 percent is generally applied to individuals and a flat rate of 1 percent is applied to companies. Household furniture and other moveable assets are exempted from the tax provided that they are not classified as luxuries, e.g. the exemption limit for jewellery and luxuries is DM10000 and for precious metals and stones it is DM1000. Pensions generally are not liable to tax.

The way in which the wealth is evaluated differs from one type of property to another. So, personal chattels are valued directly by the taxpayer at the time of year he pays the tax. Real properties are generally assessed every six years by specialist valuers and agricultural property is assessed separately every year on the basis of the potential yield. The administration of the tax is usually quite separate from income tax. Occasionally links with income are made so as to check for more information about wealth using the available information from income. In the study by the Institute of Fiscal Studies (1975), it was estimated that the contribution of the tax into the total revenues is about 1.3 percent, which is higher than in Sweden, though nevertheless modest.

In all the European cases, the main factors for imposing the tax are either to raise the revenue sources or to reduce the extremely unequal distribution of wealth. Generally, the tax as a measure of taxable capacity and for achieving greater equality, is quite satisfactory.

3.4.6 Wealth Taxation in Developing Economies

In the developing economies, a tax on wealth has also been practised by some countries in Asia, Africa, and South America. Among those countries, India is the most important case; it has a long history of the tax at the practical level. The proposal for a wealth tax as a tax reform policy was first introduced in India in 1956. It was suggested by Kaldor in a report to the Indian government and based very much on the Swedish model. The aim was mainly to broaden the tax base and to improve the revenue sources so as to foster growth and meet with the general requirements of the development programmes. The report recommended that all incomes and property should be subject to an annual wealth tax when reaching specific limits. In particular, the report stresses the imposition of heavy taxation on agriculture to transfer resources from the subsistence sector to the indusrial one so as to foster growth and development.

The main justification for Kaldor to employ high taxes on agriculture, is based on the assumptions that economic incentives do not operate in the same way in the subsistence sector as in the case of industry and commerce, and also that rural population tended to prefer more leisure than to work. Therefore, he considered heavy taxation on agriculture to act as an incentive to produce more and reduce leisure or disguised unemployment. He expesses this view by saying:

> "The amount of food or other necessities produced in a country is limited not by the availability of natural resources (land), or by knowledge or ability, but by the customary way of life the agricultural population, who prefer a maximum of leisure and a minimum of material income, and therefore work just hard enough to cover their immediate and traditional needs. In such circumstances additional taxes levied on them would tend make them work harder and produce more, i.e. to reduce their leisure, rather their standard of material consumption" (Kaldor, 1965, pp. 172-73).

In addition to agricultural taxation which was assumed to increase production and thus per capita income, Kaldor, suggested that the taxation potential of a developing country will also be strongly dependent on the prevailing inequality in the distribution of the national income which in turn is closely linked to the relative importance of incomes derived from property, as against income derived from work, and to the degree of concentration in the ownership of property. An annual tax on land, thus, can help in reducing the larger share of income accruing to a minority of wealthy individuals and in turn lead raising the standards of living for the bulk of the population

The procedure suggested for the implementation of a land tax is to set up a central records office for listing and valuation of all urban and rural properties. The valuation follows the ordinary accounting rules whereby each item is assessd at its book value. For property, urban or rural, the valuation is to be carried out in two steps. Initially it has to be valued when the tax is introduced and the personal accounts are set up and subsequently when the property is transferred to a different owner by a sale. The responsibility for the initial valuation rests on the taxpayer who would value it at the current mark-up price. The final evaluation is carried out by the central authority which will check for the initial valuation, especially in the case of wealth transfer where property is most likely to be undervalued. Generally, the introduction of a wealth tax in India is mainly restricted to an individual's properties and is adopted at a moderate rate schedule but on a progressive basis. No taxes are applied to companies' assets since that is regarded as double taxation; shares of companies are normally owned by individuals.

In considering the case for agricultural taxation in the developing countries, Newbery, however, is of the opinion that such levies do not conform well to the standard model of taxation, where there should be no distortionary effects on production and agricultural incentives. According to Newbery, the main reasons for agricultural taxation not to fit into the standard model of taxation are the following: first, agricultural production requires land, which is in inelastic supply; and second, it is difficult to tax all transactions between agricultural producers and rural conumers. Moreover, such taxes might result in a negative supply responses by primary agricultural producers (farmers).

An alternative policy suggested by Newbery to introduce taxes on agriculture in the developing countries, may include the imposition of water charges, taxes on purchased output, and local taxes on land. These levies are considered to be as administratively feasible to handle and politically possible to be accepted by powerful local groups. The justification for water charges is that they are easy to administer and also could be used for improvements in water alloction, which raise productivity and make farmers better off. Taxes on the purchased inputs such as fertilizers, services of tractors, chemicals, and seed are justified for their ease of collection. In addition, they are also unlikely to influence rural markets for labour or to reduce rural wages since, for example, the introduction of taxes on tractors may discourage capital intensive farming, thus favour labour intensive production and stimulate the demand for labour. Where taxes are imposed on land, Newbery advocates that these should be collected locally, where information about, say, the area of the land, its location, fertility, and the name of the person to whom to send the tax bill is readily available with low costs. Another policy recommended to levy taxes on land centrally, is to collect information by a land register and cadastral survey. This method, however, is likely to be expensive and to require a fairly high level of professional skill and management (Newbery, 1987, pp. 366-80).

Goode, in discussing the possibility of a tax on wealth in the developing countries, considered urban property as an achievable form of wealth taxation, which can make a powerful contribution to the objective of reduced economic inequality. According to this view, a tax on urban property (urban land and urban buildings) can be justified both as a charge for benefits that property owners receive from urban services as well as a convenient tax handle. As he recommends, this tax is especially suitable for use by local government since the absence of adequate land registration and political power of property owners in the developing countries make it impracticable to be managed centrally (Goode, 1984, pp. 134-35).

Generally, the revenue from wealth tax, in the developing countries as anywhere else, is not large. As from a survey conducted by Tanzi for eighty-six developing countries in the 1980s, wealth taxes account on average for only 0.4 percent of GDP and 2.5 percent of total tax revenue. The economic contribution of these taxes, however, is found to be very important in Singapore, where they accounted for about 2.6 percent of GDP and about 14 percent of total tax revenue, but most of this came from wealth in the form of buildings. In India, their contribution accounted for only about 0.2 percent of GDP and 1.26 percent of total tax revenue. In the Middle East countries, the highest contribution is found to be in Jordan, where they accounted for about 1.67 percent of GDP and for about 9.33 percent of total tax revenue (Tanzi, 1987). In Sudan, however, these sources do not appear in the central revenue since they have been locally administered and utilized (Department of Taxation, 1986/7).

3.4.7 Summary and Conclusion

The increasing demand for a wealth tax as an alternative or supplementary policy for income tax is influenced mainly by the extremely unequal distribution of wealth and to diversify the sources of revenues. Especially in the developing economies, where governments played an active role in production and investment, the need to increase the size of revenues for financing the increasing development programmes and other expenditure is the main argument factor for the introduction of such a wealth tax policy.

In practice there are some difficulties in relation to the tax implementation. These are generally related to the tax threshold, the exemption limits and the valuation. The appropriate threshold for a wealth tax is ultimately a matter of political judgement. However, low thresholds might be seen as a suitable policy for the radical reduction of inequality, but from the administrative side it is difficult to fix a low threshold. In Germany for example, it is suggested that an additional exemption should be given to the taxpayer when a higher threshold is fixed. In Sweden this problem is said to be solved by applying a progressive rate of taxation. With respect to the exemption policy it is also a problem especially when assessing household possessions and jewellery. There is no specific criterion to be used in determining the proper level of wealth which could be exempted for tax purposes. Finally, the valuation difficulties which relate to a wealth tax in practice, are that the taxpayer's buying and selling prices are not clearly identified or even known to the tax authorities. Also the prices of some assets might remain unchanged for a long period of time whereas others may fluctuate very quickly. It is worth mentioning that all wealth taxes, in particular the ones which put the responsibility of valuation on the taxpayer, normally offer a considerable scope for evasion which might not be easily detected.

The structure of those taxes generally depends on the purposes they are intended to fulfil. However, the implementation of the taxes could be governed by the objective of reducing the inequality of wealth distribution, or the efficient allocation of resources or could even be used for political stability purposes. In practice, there is not really one particular wealth tax, but a number of possible taxes, each serving specific objectives and with different implications for the main taxation structure. It must be pointed out that, one of the main advantages of introducing a tax on wealth in the developing countries is that it is a more promising form of bringing small and medium traders within the scope of direct taxation. Finally, a modest degree of wealth taxation may also encourage peasants in the the developing countries to become engaged in market activity.

Chapter IV

The Zakah and Tax Policy in Islam: Theoretical Foundation and Developments

4.1 An Overview

In the field of *Islamic* studies in general, and the area of *Islamic* fiscal policy in particular, the influence of *Zakah* and other *Islamic* levies such as *Kharaj*, *Ushurs* and *Jizya*, is of overwhelming importance. Recently, the subject has been dealt with extensively by many *Muslim* scholars in numerous works. The bulk of this work has focused largely on those eminent *Muslim* scholars throughout history who have practiced *Islamic* ideals in their life. Without them the recent works on the subject would not have been possible. In the earliest *Islamic* states, the development of the subject had been thoroughly investigated from the point of view of *Muslim* social values and customs. The subject as a matter of course is a part of the general *Islamic* laws that deal with the problems of economic administration and rights of ownership.

The subject is generally based on the principal that property belongs de facto to *Allah* with the *Islamic* state shoulders the responsibility for equal distribution of wealth and efficient use of resources, as well as the abolition of interest and irrational consumption behaviour. Accumulation of property in one or a few hands is not allowed or recommended, and consumption of luxuries is not fovoured by the rational *Muslim*. Individuals are allowed to own property for their personal and collective use only, and not merely for use as a source of income (Zarqa, 1988, pp.

163-216). Following these principles, the second *Caliph* (successor after the death of the *Prophet*), refused to distribute the conquered lands and properties among his soldiers who had taken them. The decision to leave the lands undistributed in the hands of their previous occupiers was made after consulting the *Quran*, the *Prophet*'s traditions, and his associates. The justification for this decision was mainly to maintain the rights of future generation to the lands and not to leave them without a share. (Abu Yusuf, 1977).

The fiscal policy was a comprehensive one which covered almost all types of property and possessions. The collection of the various levies was under the direct supervision of the state, which was responsible for the provision of basic needs for its inhabitants. The system of taxation preached by early *Muslim*, however, was founded on the basis of equality; the policy followed, therefore, was primarily based on taxing the rich and distributing the proceeds among the poor. The ultimate goal of the policy was to achieve a social balance in the *Muslim* society. Although this system had came into force during the life of the holy *Prophet* and his successor Abu Bakr, it was really only developed under the rule of the second *Caliph*, Umar. This was due to the rapid expansion of *Muslim* territory, which meant that the development of the taxation system had to become more refined. Hence in order to meet the increasing demands of the state, new taxes, namely the land tax and the tithe on traded goods entering the state, were developed and implemented (Abu Yusuf, 1977).

According to Ariff (1982), the following principles are to underpin the tax policy an *Islamic* state: firstly, that basic necessities should be provided for all individuals by the state. The state's role therefore is to secure the minimum demands of the poor and also to share in creating new opportunites for them to improve their living standards. The second principle which guides the tax policy in *Islam* is the abolition of wealth hoarding and to prevent its accumulation in a few hands. In this respect, absolute ownership of wealth is not allowed or recommended and individuals have only the right to the proper use of that wealth. The final condition to be met by the tax policy is that the social system should be fully in balance. This social balance, in Islam, is fulfilled by creating institutions like *Zakah*, *Sadaqat* and charitable trusts *Awqaf*, which transfer wealth from private ownership to a beneficial social collective ownership. The inheritance system which leads to the redistribution of the total wealth of the deceased also helps to bring about a balanced social system and to determine clearly the entitlement of living persons with respect to the possession of a dead person's property (Iqbal, 1988, pp. 11-34).

The main levies practiced earlier by *Muslims* and considered most in the theoretical writings cover: *Zakah* (the most important levy on Muslims), *Kharaj* (land tax), *Ushurs* (tax on trade), *Jizya* (poll-tax) on non-*Muslims*, and a fifth of *Ghanima* (spoil of wars), *Fai* and treasure-troves. One complete work on these, which could be very helpful in the investigation and the elaboration of the system followed therein is that of Abu Yusuf entitled "*Kitab al-Kharaj*". this book is in fact a report on the state of the religious precepts dealing with tax problems and legal opinions on the subject extracted from the *Quran* and the *Prophetic* traditions. The book was written for the *Abbasid Caliph* Harun al-Rashid to assist him in managing and reorganising the tax policy and other financial aspects of the state. Other important original sources consulted by the researcher in designing this chapter include "*Kitab Al-Amual*" by Ibn Salam (1975); "*Al-Ahkam al-Sultaniya*" by Al-Mawardi (1978); and "*Fiquh al-Zakah* by Al-Qaradawi (1985). These works will be refered to as necessary throughout the discussions of this chapter.

4.2 Origins and Developments of Islamic Fiscal Policy

The first financial institution established during the lifetime of the *Prophet* (p.b.u.h) and his immediate successors was known as "*Bait-al-maal*", the public treasure or the finance house. The principal role of this institution was to reorganize and develop the various sources of revenue, and to distribute the proceeds properly to those in need people and to the common interest of the community as a whole. The main revenues that accrued to the *Bait-al-maal* were: the *Zakah*, the *Kharaj* (land tax), the *Jizya* (poll-tax), the *Ushurs* (tax on trade), and a fifth from the (*Ghanima* (spoils of war), *Fai* and treasure-troves. More discussion of these sources will be considered later in separate sections.

The *Zakah* is the corner-stone of the financial structure of the Islamic state. It is also the key element in Islamic economics as a whole. Apart from its strategic economic importance, it is one of the five *pillars* of *Islam* on which the whole structure of *Islam* has been built. It has its origin in the *Quran*, where it receives a high degree of emphasis, and ranks immediately in importance next to the prescribed prayer (*Salat*). The *Quran* contains twenty five verses which have direct references to *Salat* and *Zakah*, and another seven which relate to *Salat* with *Infaq*; the term "*Infaq*" generally refers to all which is spent for the sake of God including *Zakah*. As it is revealed in the *Quran*:

> "So establish regular prayer and give regular charity and obey the *Apostle*; that *ye* may receive mercy?" (*Surah* 24, Verse 56).

As the *Quran* does not give details about the base and rates of *Zakah*, particulars were derived later from the directives of the *Prophet* to his followers and also from the general agreements concluded with those tribes who embraced Islam during the life-time of the *Prophet*. Strictly speaking, the *Bait-al-maal* must ensure that the *Zakah* is collected from every Muslim whose wealth exceeds the *Nisab* (the minimum taxable value). The proceeds from the *Zakah* should then be distributed to the needy and those in financial difficulties, as specified by the holy *Quran* (surah 9, verse 60).

Apart from its financial importance, the *Bait-al-maal* was also an important administrative unit of the *Islamic* state, which had been carefully structured and supervised. As noted by al-Saadi (1986): "the *Prophet* used to instruct his tax-collectors not to accept gifts or to behave in a way liable to bring any of the tax-collectors or the tax-payers into disrepute". Abu Yusif (1977) reports that the employees working in *Bait-al-maal* used to be selected from those known to be most knowledgeable, honest and trustworth. Their function closely paralleled that of a contemporary finance ministry. However, the main aim of the financial policy at the time of the *Prophet* was to distribute whatever came from taxation and other sources to the needy and to those working for the Islamic state (Aghanides, 1961, pp. 481-84).

After the death of the *Prophet*, the financial position and fiscal policies of the *Islamic* state continued to be improved and strengthened as a result of its expansion. During the rule of the second *caliph* (Umar), as the territories expanded to embrace all of Iraq, Syria, Persia and Egypt under the banner of *Islam*, the demands on the central authority increased both in quantity and variety. Accordingly, the fiscal policies were adapted to meet with the requirements of the new situation, and to build a strong financial institution, as well as to organize the administrative affairs of the nascent *Islamic* state. As Irfan (1970) asserts, the organization of the public treasury was the most important change introduced during the reign of the second *Caliph*. Another important step taken was the division of the public treasury into specialized departments known as "*Dawawin* (plural of *Diwan*). Each department was responsible for a particular function, e.g. some for registration and recording and others for assessment. As al-Saadi states:

> "It is said that the second Caliph had contributed very much to the development of the fiscal policy of the Islamic state. He had introduced for the first time a sophisticated system of registration and of keeping records, whereby different sources of revenues, as well as names of those who had been given donations or Zakah, were regularly recorded and checked" (Al-Saadi, 1986, pp.38-39).

The development of the organizational structure of the financial system of the early *Muslim* state, however, covered both the collection of revenues from the various sources and the distribution of their proceeds. With regard to collection, the major modification was the introduction of a system of assessment and presumption of revenues, as well as the keeping and updating of records and information about their growth and progress. The distribution of benefits paid out by the state through the public treasury was also clearly defined and divided into categories. The three main categories of the distributed benefits included: the benefits originating from the *Zakah* sources; the benefits generated from the *Jizya*, the *Kharaj* and the *Ushurs*; and the benefits from the spoils of war and the *fai*. In the case of *Zakah*, the beneficiaries, as specified by the *Quran*, are the poor, the needy, those employed in its collection and distribution, those whose hearts have been reconciled, those in bondage, those in debt, and for the cause of *Allah*, and for the wayfarer (*Quran*, Surah 9, Verse 60).

The revenues from *Jizya*, *Kharaj*, *Ushurs*, and *Fai*, however, were to be distributed according to the common interest, as pensions to the old and unfirm, including non-*Muslim* citizens. According to Abu Yusuf, these resources could also be used for financing the infrastructure, e.g. establishing new canals and constructing public roads and bridges. War spoils were to be distributed as follows: four-fifths to the victorious soldiers and the remaining one-fifth to the public treasury (*Bait-al-Maal*) for distribution among the needy. Concerning the final one-fifth, Umar excluded the share of the *Prophet* and his relatives from the classification of the beneficiaries of the spoils of war and added it to other beneficiaries (Abu Yusuf, 1977).

It is worth noting that the fiscal tools developed throughout the rule of Umar were to become the standard for the succeeding *Caliph*. During the reign of the third and the fourth *Caliph* (Uthman and Ali), the system of registration and assessment established earlier continued to be developed and improved. With regard to the *Zakah*, the main changes that occured during the *Caliphate* of Uthman was the division of the *Zakah* base into visible and invisible properties. While the *Zakah* collected from visible properties was considered to be directly under the responsibility of the *Islamic* state, that collected from invisible ones was to be left to the conscience of individuals. Examples of visible property include agricultrual produce, treasury-troves and animals; invisible properties include gold, silver, items for trade, and financial holdings (Al-Saadi, 1986).

4.3 The Institution of Zakah

4.3.1 Policy Developments

From the early practice of *Zakah* carried out by the *Prophet* and the succeeding *Caliphs*, it is clear that its levy was not merely a voluntary private charity but rather a compulsory contribution from all able individuals for the sake of *Allah* and for the deserving poor. The role of the state, thus, was a crucial one both in managing the distribution and collection of the tax, as well as appointing and selecting the tax officials. As noted by Abu Yusuf (1977), the first *Caliph* (Abu

Bakr), held that the *Zakah* was inseparable from prayer (*salat*) and thus should be paid as a duty to *Allah*, and not just as a tribute payable to the person of the *Prophet* or for the personal gain of any one individual, as some tribes had thought. Abu Bakr took severe steps to enforce the payment of the *Zakah* when certain tribes refused to pay it to the public treasury. He used to distribute whatever income was brought from *Zakah* and spoils of war into the public treasury directly to those in need, thus emulating the practice of the *Prophet*.

According to Abu Yusuf, however, the *Islamic* state continued to play an important role during the *Abbasid Caliphate*, and it was used as basis for other levies, e.g. the *Kharaj* and, taxes on animals. Islam in all of its aspects generally prefers order and organization as an instrument for fulfilling its goals such as freedom, moral norms, economic and social justice and bringing about an equitable distribution of income. To achieve such goals the policies decided by the authorities are to be performed through a democratic process of consultation (*shura*) with all members or their rightful representatives. The very nature of the institution of *Zakah* requires that the part which the state is to play is merely one of supervision and enforcement of laws (Chapra, 1970).

Following the practice of the *Zakah* by the four *Caliphs*, the state played a very important role in its collection and distribution. The extent of the state's intervention, as can be deduced from behaviour of the third *Caliph* (Uthman), who treated some items such as gold and silver as invisible property, depends on the amount of information available about the specific sources. These sources might be regarded as visible proprty if enough information about them can easily be obtained, as in the case when the second *Caliph* treated the movement of traded goods as visible property, enabling the levy to be collected through the state.

After the first four *Caliphs* the institution continued, and is the core of *Islamic* fiscal policy, upon which the whole economic structure is based. According to Abu Yusuf, the institution made a great contribution to the development of fiscal policy during the *Abbasid Caliphate*, and was used as a basis for other levies in the *Islamic* state, e.g. the *Kharaj*, taxes on livestock and taxes on mines and minerals. As a vehicle for social justice, the institution of *Zakah* provides generally cohesion and strength for *Muslim* society, through which the network of a social security system can easily be extended from individuals to the community as a whole. Wealth in this process is both a right and a responsibility. It is a right for the poor who have a share of wealth by dint of the amount fixed by the *Zakah*, and it is a responsibility for the owners who have to use their wealth in a way which serves the common interest of the whole society (al-Qaradawi, 1985). As decreed in the holy *Quran*:

> "And in thier wealth and possessions (was remembered the rights of the needy)", and again "And those in whose wealth is a recognised right for the needy who asks and him who is prevented (for some reason from asking)" (Surah 101, Verse 19 and Surah 120 Verses 24 & 25).

4.3.2 Concepts and Definitions

One of the concepts upon which there is general consensus among *Jurists* and *Muslim* economists in their definition of the term "*Zakah*" is that it is a compulsory levy on *Muslims* to purify their wealth and to motivate the circulation and distribution of idle accumulation of wealth from the comparatively well off individuals to the most needy ones. This is comprehensive in its structure since it covers all known types of worldly properties. The main classes of property that had been considered in the early practices of the policy included: gold, silver and similar forms of financial holdings; articles of trade; livestock, namely camels, cattle, sheep and goats; and the land produce including both agricultural products as well as mines and treasure-troves. The rates of the levy are generally very low and vary from one category of properties to another in accordance with the holding costs of wealth. The rates, for example, start from 2.5 percent in the case of gold and silver and similar financial holdings, rise to 5 percent on agricultural produce irrigated by artificial methods, 10 percent on agricultural produce irrigated naturally, and 20 percent on mines and treasure-troves. For livestock the minimum rate is approximately 2.5 percent as in the case of sheep and goats, where from each herd of forty one sheep or goat is to be paid (Atiqullah, 1982). More discussion on these rates will be considered later.

The institution of *Zakah* was to be administered by the Public Treasury (*Bait-al-Maal*) and the proceeds of *Zakah* are to be distributed among the following groups of beneficiary as specified in the *Quran*: the poor (those who have no possessions); the needy (those who own insufficient wealth to support themselves and their dependents); those employed to administer the policy; those whose hearts have been reconciled, e.g. people who embraced Islam with ill-will and who were encouraged to change their behaviour by authorized payment from the alms fund of public treasure; those in bondage (this category according to Al-Qaradawi may not exist in recent times since the days of slavery are over); those in debt for legitimate reasons; in the way of *Allah* or the common interest of a *Muslim* society; and way-farers, e.g. travellers who by reason of their travels have been cut off from their financial resources.

Abu Yusuf considers the word *Zakah* as a part of the term "*Sadaqah*", which defines both voluntary charity by all individuals and the compulsory contribution by those eligible to pay *Zakah*. Unlike the compulsory levy, no specific rates are applied in the case of voluntary charity. However, the main framework and concepts of *Zakah* have not changed through time, although the bases and benficiaries have been subject to certain modifications by later-day *Muslim* scholars.

4.3.3 Contemporary Approaches to the Zakah

During the last two decades, and in the light of the modern economic theory, *Muslim* scholars have made great efforts to modify the concept of the *Zakah* and to develop its practice in contemporary *Muslim* societies. Their views have been expressed extensively in recent writings on the subject and also in the various conferences and seminars held for that purpose. The main aim of this work is to build an economic model which is more *Zakah* oriented rather than adopting merely methods of collection and distribution. The role of the policy, therefore, is to encompass all human aspects of life through setting social and economic objectives with ethical and moral values in the framework of the system. Two approaches have generally been considered in the theoretical discussions: the first emphasizes the role which the *Islamic* state must play in controlling the different aspects of the policy, and the second attaches less importance to the direct role of the government in the collection and distribution of the *Zakah* proceeds. While the first approach is widely covered by the early writings on the subject, the second is raised mainly by some recent scholars in efforts to match the modern economic theory.

As reported by Abu Yusuf, the first approach has its origin in the practices of the *Prophet* and his successors, as in the case of the first *Caliph* who declared a war against those who refused to send their *Zakah* to the public treasury. He is of the view that the *Islamic* state, in order to keep a balanced social system, should take over the responsibility of collecting *Zakah* and distributing it on an equitable basis. In a recent comprehensive treatise on the subject by Al-Quradawi (1969), a good case for how *Zakah* might be implemented has been made. The writer shares the view that the collection and disbursement of *Zakah* is essentially the responsibility of the *Islamic* state. He says:

> "*Zakah* is an important weapon in the hand of the Islamic state so as to prevent any hoarding of wealth in a few hands and also to provide the public treasury with a permenent source of revenue" (Al-Qaradawi, 1969, v.2 p.354).

In a recent work on *Islamic* economics, Mannan recommends a similar policy. He defines *Zakah* as a compulsory levy on private savings and properties which requires the control of the state, i.e. it is not merely a voluntary charity which is left to the conscience of individuals. Two aspects have generally been considered in the analysis: the economic and the social. The economic aspect of the policy is that it is an uncompromising enemy of hoarding which checks for the accumulation of capital and idle wealth in cash form. Being a check on the accumulation of wealth, investment into real capital will automatically be favoured by the policy. Also by releasing resources for investment, *Zakah* links up directly with other microeconomic instruments, namely production and consumption. As total production will be increased, more job vacancies will be opened for the unemployed which in turn will result in an increase in the aggregate demand and levels of consumption. The increase in consumption is in part also due to the raising of the purchasing power of the poor and needy groups through lump-sum transfer of incomes by means of the *Zakah* (Mannan, 1984).

However, Mohammed al-Mubarak (1972) and al-Sadr (1968) regard the increasing role of the state in the *Islamic* economy as very important in order to guarantee social security, to ensure that the needs of the poor are met, and to maintain a balance in the standard of living.

An alternative policy considered in the recent discussions on the policy stresses less on the direct control of the government on the different aspects of *Zakah*. Ben Shemesh (1969), for example, is of the opinion that *Zakah* is not a levy imposed by the state, nor is it fully controlled by it. As he states:

> "The *Zakah* in the structure of the *Islamic* body politics is not a tax imposed by the state or even dependent on it for its function. The *Zakah*, once properly organized in full conformity with the *Quranic* principles relating there to end with due reference to the instructions given by the *Prophet*, the very nature of the institutions of *Zakah* requires that the part the state is to play in its function be merely one of supervision and not one of full control as in the case where government taxes are concerned" (Ben Shemesh, 1969, p.26).

The writer in defending this view has followed to a large extent the logic used by Zayes in his study "*The Law and Philosophy of Zakah*", which states:

> "*Zakah* was an official institution for a very short time only, and afterwards came the concern of individuals instead, and so worked imperfectly, still it has barred the way of communism to *Islam*. It has done so because real socialism was wisely interwoven into the institution of *Zakah*" (De Zayes, 1960, p.15-16).

In support of this policy Ben Shemesh also cited the case of Pakistan which has had a recent experience of *Zakah*. He writes:

> "We have seen how Pakistan, the largest Islamic state, has solved the problems of religious *Zakah* duties by offering to the public *Zakah*-stamps to be bought by any-one who so desired" (Ben Shemesh, op.cit., p.28).

In his recent work on the *Islamic* welfare state, Chapra (1979) recommends the intervention of the state to raise revenues through levies other than the *Zakah* since the proceeds are likely to be limited, and the expenditure heads are clearly enumerated in the *Quran*. The *Islamic* state should play an active role by providing physical and social overhead capital, arranging social security and maintaining the basic needs for the needy, as well as creating conditions favourable for employment and high rates of growth

However, one cannot easily classify *Zakah* directly in either of the two approaches considered earlier since *Islam* has its own economic system of finance and distribution which is quite different from other systems, be they capitalist or communist. The *Islamic* system may briefly described as one of abundance and justice, in which private ownership of wealth is not an absolute right, but rather a social function. In such a system, the role of the state in securing the subsistence level of living and in assuring an equitable process of distribution among its inhabitants can hardly be ignored. The freedom of individual is generally bounded by social and ethical values which should be met by both *Muslim* individuals and the state. Thus if the *Zakah* is completely left to the conscience of individuals, it would not bear its fruitful results. The payments must be recorded, and it is here that the state has a role, even though the payment itself is voluntary. In particular *Zakah* should satisfy the the assurance of social justice, brotherhood and the achievement of an equitable distribution of resources, human and natural, among the larger sector of the population. (Zarqa, 1988, pp. 180-83).

It must be pointed out here that modern economic theory also suggests an active role for the state in the optimization of welfare conditions and the minimization of diseconomic effects of externality. The presence of externalities and the increasing tendancy towards monopolistic competition, however, could justify the intervention of the government to improve the social welfare function and to attain efficient allocation of public goods which comply with Pareto Optimality condition. According to Kaldor (1980), supportive government policy can be used to improve the distribution of wealth and income as well as to guarantee the provision of social goods for the interest of the whole community. The relative significance of the state in the decision-making costs to provide public and collective goods has also been the major theme of Buchanan's and Brennan's works to develop a theory for the supply of public goods based on constitutional rules. According to this view, the relevance of the constitutional choice is to restict the domain of the tax system and the power of the government to tax, as well as to enforce tax reforms within manageable bounds (Brennan and Buchanan, 1980, pp. 187-190). North also, in his study about the structure and change in economic history, criticised the neo-classical theory of the state for its exclusion of the theory of institutions to enforce property rights and to describe the individual and group incentives as well as to explain how different perceptions of reality affect the reaction of individuals to the changing "objective" situation (North, 1981, pp. 3-12).

4.3.4 The Zakah Base and Rates: General Properties

One of the striking features of the *Zakah* base with regard to modern concepts of taxation is that it is a comprehensive levy, covering almost all types of property and personal possessions which have a direct effect on the taxable capacity of the people. From the outset, property liable for *Zakah* was classified under one of the following groups: (i) grazing animals such as camels, cattle and sheep; (ii) gold and silver and money or goods used for trading purposes, and (iii) produce obtained from the earth such as grain and fruits and also treasure-troves and the produce of mines, e.g. gold, phosphate and oil. The coverage of these groups, at present, is not only limited to conventional sources known earlier, but can also be extended to cover modern bases in whenever they share similar characteristics.

(a) The Zakah on Animals

For this group, the main requirement according to the *Hanafi* and *Shafai* schools, is that they are grazing on public land and potential to growth and to the provision of benefits to people, e.g. milk and meat. The *Maliki* school, on the other hand, holds that animals are subject to *Zakah* even if they are used for work, whether or not they are pasturing. This would include all domesticated animals such as camels, cattle and oxen, and sheep and goats. For Abu Yusuf, these animals are not subject to the levy policy related to the grazing animals if they are fed from public land; rather they are lumed together with articles of trade if they are intended for that purpose. Payment takes place when the possession of animals passes a full year and the total number exceeds the *Nisab* or exemption limits. The *Nisab* and the *Zakah* rate, however, varies from one type of animal to another. For example, the *Nisab* for camels is when the total number is equal to or exceeds five; for sheep and goats when the number reaches 40 and for cattle or oxen when they amount to 30 heads. The rates for the different types are as shown in Tables 4.1, 4.2 and 4.3 below:

As from Table 4.1 below, the rate of the tax for camels starts from 5 and the tax rate for that minimum number is one goat, after which the rate continues in terms of goats until the total number of camels amounts to or exceeds 25 heads. For 25 or more the rate is levied in terms of camels (females) or a mixture of camels and goats. A female camel aged 1-2 is known as *Bint Mukhad*; aged 2-3 *Bint Labun*; and aged 3-4 *Hiqqah.*

As Table 4.2 shows, the minimum taxable number for cattle is 30 heads, after which the *Zakah* will be at a rate of one cattle aged 1-2 years for a multiple of 30 and one cattle aged 2-3 for a multiple of 40.

The calculation of *Zakah* for goats or sheep is relatively simple. The exemption limit is 40 and there is no levy below that. After 40 the rate takes a regressive

Table 4.1: The Zakah on Camels

Number	The Zakah Rate	Age in Years	Remarks
0 - 5	exemption	—	
5 - 25	1 goat (m or f)	1-2	for every multiple of 5 camels
25 - 35	1 camel (f)	1 - 2	
35 - 45	1 camel (f)	2 - 3	
45 - 60	1 camel (f)	3 - 4	
60 - 75	1 camel (f)	4 - 5	
75 - 90	2 camels (f)	2 - 3	
90 - 120	2 camels (f)	3 - 4	
120 - 145	2 camels (f) + 1 goat	3 - 4 and 1 -2	
145 - 150	2 camels (f) + 1 camel (f)	3 - 4 and 1 -2	
150 and more			1 camel of age 3-4 for every multiple of 50 + 1 goat for multiple of 5

Source: Adapted from Atiqullah (1982).

trend until a number of 500 is reached. For more than 500 a flat rate of one goat or sheep will be levied for each extra 100. For example, the rate for 540 (5x100+40) is 5, and the remainder (40) is considered as tax relief.

Generally, the *Zakah* rate for animals is relatively low and takes from the owners as little as possible in proportion to their realized assets. Such a low rate policy is desireable both on the grounds of revenue productivity and also in terms

Table 4.2: **The Zakah on Cattle**

Number	The Zakah Rate	Age in Years
0 - 30	exemption	—
multiple of 30	1 (m or f)	1 - 2
multiple of 40	1 (m or f)	2 - 3

Source: Adapted from Atiqullah (1982).

Table 4.3: The Zakah on Sheep and Goats

Number	The Zakah Rate	Age in Years
0 - 40	exemption	—
40 - 120	1 (m or f)	1 - 2
120 - 200	2 (m or f)	1 - 2
200 - 400	3 (m or f)	1 - 2
400 - 500	4 (m or f)	1 - 2
500 and more	5+1 per extra 100	1- 2

Source: Adapted from Atiqullah (1982).

of administrative feasibility. The tendency towards evasion is therefore reduced to a minimum since the burden on the owners is not too heavy. Another advantage of applying low rates is that the owners will be encouraged to keep more animals, thus increasing the growth of national wealth of livestock and the supply of dairy products. It is worth mentioning that such specific rates are generally applied to animals which pasture on public grazing lands. Thus animals which are fed by private owners may be treated as articles for trade if they are kept for that purpose and satisfy the conditions of *Zakah.* However, it is also said that, during the time of the second *Caliph*, the levy of *Zakah* on animals was not limited to domestic animals such as camels, cattle, goats and sheep, but was extended to cover horses that were not used for riding or for carrying loads. Horses used for riding and other productive uses are not liable to the levy policy although the earnings from their productive use will be subjected to the levy policy (Badawi, 1979).

(b) Zakah of Financial Holdings and Articles for Trade

This category covers gold, silver and liquid assets, as well as articles for trade and profit. The levy on this category, unlike that on animals, stems not from their physical identity but from their commercial value. The taxable limit of gold and silver, as explained by Al-Qaradawi (1969), is the possession of the value of 85 grams of gold or the value of 595 grams of silver, these being the equivalent of 20 dinars of gold and of 200 dirhims of silver which were well known measures in earlier ages of *Islam.* However, gold and silver were the most stable commodities and were of high importance as a measure of the store value of wealth and as a medium of exchange in markets. It is worth mentioning that the role of gold in early *Muslim* economy is analgous to that in the world economy under the gold exchange standard, as gold was used alongside paper currency. Gold of course is not just a form of money, but is also used as an end in itself, especially in the form of jewellery.

In the recent implementation of *Zakah*, however, gold is still of strategic importance in determining the rough value of the taxable limits, especially of articles for trade, and of incomes and financial assets, as well as of business profits. The relative price of gold might well be considered in the calculation of the approximate value for 85 grams of gold, the minimum taxable limit. The calculation of the *Zakah* is usually carried out on a yearly basis and is levied at a proportional rate of 2.5 percent of the market value of items liable to the levy policy.

For articles of trade the taxable value is the same as that of 85 grams of gold. The term article of trade, as far as *Zakah* is concerned, is not restricted in particular items, but covers all traded goods and also applies to any property intended to be traded. This includes foodstuffs, clothing, jewellery, equipment, machinery, land for trade, animals for trade, and buildings or houses used for the sake of trade. Articles of trade become liable for tax after they have been valued at the end of the year, i.e. after the taxable limit has been in the owner's possession for a whole year. The tax is levied at a proportional rate of 2.5 percent of the taxable amount subject to *Zakah.* This rate is also applied to both assets held and assets sold if they have remained in the owner's possession for a whole year. As a matter of fact, a reference to *Zakah* payable on commercial goods has also been mentioned by *Imam* Al-Tabari in his explanation of *Surah* 2 *verse* 267:

"O Ye faithful, spend of the good things ye have earned."

However, in connection with the levy policy for this category of property, the following points are worth considering. Firstly, the *Zakah* should be levied on idle wealth after all bad debts and similar obligations have been deducted. Secondly, the *Zakah* on trade is to be given preference wherever it clashes with that on animals. This point, as raised by Siddiqi, is based on the argument that as soon as animals are intended for trade, the need for pasture and the rationale for *Zakah* of the animal type ceases to exist. Even real estate, according to Siddiqi, may become an article of trade although ordinarily it is subject to the *Kharaj* or tithe (Siddiqi, 1979). The third point is connected with the taxable limit or *Nisab* and not to specific values. It is worth noting here that by linking the levy policy to quantities or weights, the real proceeds will not be influenced by changes in price levels. In this respect the tax beneficiaries will be more justified since their shares will not be affected by inflation. It is also easier for the tax officials to check on the taxable property without facing any difficulties of valuation or other sources of uncertainty.

Mannan (1984) is of the view that the *Zakah* on bank-notes and profits or dividends is to be treated in a similar way to *Zakah* on articles for trade. This view, however, was developed from a report on social solidarity in the Arab world presented to a meeting held in Damascus in 1962. The report considered that stocks and shares, if acquired for the purpose of trade and gain, should be dealt with as commodities liable to *Zakah*. Needless to say, these assets should be obtained by lawful means. In addition to stocks and shares, Siddiqi (1979) also suggests that income from wages is to be treated in the same way as gold and silver and articles of trade, i.e. wages are liable to the levy policy if the total income received by a person exceeds the market value of 85 grams of gold.

(c) The Zakah on Agricultural Produce

This category covers in general whatever is obtained from the earth by cultivation and utilization. According to Al-Qaradawi, this group can also be extended to include treasure-troves and mines, as well as commercial building houses. This kind of *Zakat*, especially in the case of agricultural produce, differs from other forms of wealth in that it is not payable at the completion of a year as in the cases of animals and traded goods, but as soon as the crop is harvested or the treasure is exploited. The tax rate here varies in accordance with the effort and types of irrigation used in the land. This category was and still is the most important source of revenue in *Islamic* states. It covers in its broadest definition all the produce on the surface of the earth such as grain and fruit and others, the produce of seas and rivers, and the produce of mines such as gold, iron, phosphates and oil. For agricultural produce, the proportion the *Zakah* is assessed at the rate of one-tenth in the case of land irrigated by natural means (e.g. rain and floods) without any extra effort by the owner. However, green vegetables and other agricultural produce which cannot be preserved for long period, are not subject to these rates but are instead treated as articles of trade with a proportional rate of 2.5 percent. According to Abu Yusuf, no tax is to be levied on the portion of the produce consumed by the owner. It is worth mentioning that money and wild fruits and crops are included among this category; these are subject to a tax rate of one-tenth of the produce. For mines and treasure-troves found underground the tax is generally leviable at a higher rate, i.e. of one-fifth of the property. As the properties mentioned above are of high market value, the high rates could be justified both on the grounds that they will militate against the concentration of wealth in a few hands and also that they will reduce the degree of exploitation in society.

4.3.5 General Rules Underlying the Zakah

(a) Rules Relating to Property

Zakah is leviable on properties which have a capacity to grow and are fully owned by individuals. No levy is payable on articles which are unproductive or on primary necessities, e.g. dwelling-houses, riding animals, food used by oneself and one's family, and tools for production. These articles are exempt from the levy policy provided they are not intended for trade. The amount of taxable property must be over and above what is necessary for the satisfaction of the primary necessities of life. This amount is generally referred to as the *Nisab*, which is the minimum exemption limits of property and income that are liable to *Zakah*. As a matter of fact, the *Nisab* must be free from debts which are subject to demands of payment by others. The *Zakah* becomes payable for most types of property and also for income when one year has elapsed over the *Nisab*. The lapse of a period of twelve months is essentially necessary in the case of *Zakah* on animals and financial holdings because time is indispensable for productivity to materialise. In the case of agricultural produce the lapse of one year, however, is not the deterministic factor but the completion of the production cycle and the realization of output are the crucial factors. This *Nisab* is composed only of idle wealth after the exclusion of all debts.

(b) Rules Relating to the Administration of the policy

The administration of *Zakah* generally follows a decentralized policy of collection and distribution. Mobilization of resources between may take place when there is a surplus of revenues above the basic needs of a certain area or region. The role of the central authority is mainly to set rates and bases as well as to stimulate the flow of information between the regions and the centre. One of the advantages of employing a decentralized policy of *Zakah* is that it reduces the cost of administration and makes the assessment and allocation of resources more feasible. Such policy can strengthen local government finance and improve the efficiency of public sector by reducing the need for tranfers from central to local government. The appropriate use revenue sources, however, depends on the spending responsibilities assigned to local authority (Abu Ubaid, 1981).

Generally, the decentralization of the collection and the distribution of *Zakah* could be supported on the grounds that it contributes substantially to raising living standards and growth. These may cover basic health, education, and job opportunities for the poors who have the capacity to work. The practical problem which face the decentralization policy of *Zakah* is that local governments often lack the administrative capacity to collect and distribute the proceeds in an efficient manner. Also, the vagueness in the division of responsibility between the centre and the local authorities may undermine local accountability and weaken the administrative feasibility.

(c) Rules Relating to the Zakah Payers

For a person to pay *Zakah*, he must satisfy following conditions: firstly, he must be a *Muslim*; since the *Zakah* is an act of worship which cannot validly be performed by a non-*Muslim*. The second condition is that of maturity: young people are not entitled to pay *Zakah* until they are 18 years of age or over. The third condition is that the payer should be a free man: people in bondage are not subject to the policy until they obtain full freedom. Finally, people in debt are also excluded from the policy until their debts are paid.

(d) Rules Relating to the Beneficiaries

The beneficiaries of *Zakah* as specified directly by the holy *Quran* comprise the following eight groups: the poor who have no income; the needy whose income must be supplemented; the *Zakah* officials who are directly collecting the tax; slaves who are seeking freedom and support; those whose hearts are to be reconciled; travelling people who are embarrassed financially; people in debt; and finally, for spending in the cause of *Islam.* These *Zakah* recipients represent nearly all classes of the poor and the needy people in a society who seek relief and who are entitled to financial support. According to the *Quran*, these recipients should not all be *Muslim* but also cover non-*Muslim* such as those whose hearts are to be reconciled. (*Surah* 9, verse 60).

(e) Economic Rules Coinciding with the Policy

The economic principles which can be deduced from the structure of *Zakah* base and rates may be summarized in the following two points. Firstly, the rate of the tax is directly related to the amount of labour and capital involved in the accrual of an income. Thus the lesser the amount of labour and capital spent in acquiring income, the higher the rate of taxation; and conversely, the greater the amount of labour and capital, the lesser the rate of the tax. So in the case of treasure-troves which are obtained accidently and without much labour and expenditure, the tax rate is high, i.e. normally 20 percent of the entire find. In the case of agricultural produce, the tax is higher when the land is irrigated naturally by rain (10 percent), and at a rate of 5 percent of the produce when the land needs considerable labour and capital in case of artificial irrigation, i.e. where it is irrigated by the labour capital of the cultivator. The difference between 10 percent and 5 percent represents the average cost of labour and capital that might be spent on irrigating the land.

In the case of the *Zakah* on financial assets, gold and silver, and articles for trade, the rate is at 2.5 percent. This much lower rate reflects the difficulty of accumulating these assets, in addition to the high degree of risk the owners might face in keeping such types of property. One of the advantages of applying a low rate in the case of gold, silver and articles is that the transformation of financial assets into productive investments will be greately encouraged even if the rate of return from investment is low (i.e. at 2.5 percent or less). Also it will reduce the tendency of the businessmen to avoid the tax since small amounts of tax are not difficult for him to afford. Business and trade in that respect will also be encouraged and motivated to expand and develop. Generally, no *Zakah* is charged on things which are not capable of further production and growth, e.g. tools for production, houses, animals for riding, etc. Also no Zakah is payable on perishable goods such as vegetables.

The second principle that needs to be considered in assessing *Zakah* is that it should be paid when one year has elapsed over the *Nisab* of the productive property. This condition is in conformity with the ordinary business year and with productivity requirements. The lapse of a period of twelve months is the minimum duration for most types of property leviable under the *Zakah* to grow and develop. In the case of agricultural produce, for instance, the period is quite suitable for most types of crops to yield an output. In the case of animals, the duration of one year is the average period for many groups of animals to give birth to new generations. For example, the normal duration for cattle is twelve months, for camels eleven, and for sheep and goats it is approximately six months.

Furthermore, a period of one year is more suitable for investment and production, and also very convenient for the beneficiaries and the payers of *Zakah*, as well as for the tax officials. It is neither too long to cause hardship to the poor and the needy, nor too short to create difficulties of evaluation and assessment for the payers. For the tax-officials as well, the period is quite suitable to assess the different sources or to specify the most needy individuals who are worthy of receiving *Zakah.*

4.3.6 The Zakah and Contemporary Principles of Taxation

The *Zakah*, apart from having important religious aspects, is also a very important taxation policy which satisfies most principles of taxation suggested by modern theories of taxation operating in civilised societies. These principles have been covered earlier in the theoretical discussions about the taxation policy. They are the equity or justice principle, the administrative feasibility principle, and the economic efficiency principle of taxation. The equity principle requires the level of taxation to be appropriate to the income of the individual and also to the benefits that a taxpayer enjoys from the state. The administrative feasibility principle requires that all details and information about the method of calculation of the tax and the time of payment, as well as the rates and amount to be paid, be clear and plain. It also refers to the fact that taxes ought to be levied at the time when it is easiest for the taxpayer to pay his dues and also for the tax officials to collect them with the minimum administrative costs. The economic efficiency principle, calls for the tax to take as little as possible from people, i.e. as little as is possible without compromising efficiency. These three principles are still considered to be the basis of sound public finance and it is interesting to see how far they are true when compared with the mechanism of *Zakah.*

By comparing the *Zakah* with the first principle, the principle of equity or justice, we find that justice is fundamental to the legislation of *Zakah.* Every one who has sufficient assets over and above the *Nisab* has to pay a modest contribution. If a person does not have sufficient wealth, he pays nothing; there is no distinction in this matter between *Muslims*: all must pay equally if they are able. The fact that *Zakah* is imposed at a uniform rate of 2.5 percent on accumulated wealth during the whole year ensures also to a large extent the concept of equal absolute sacrifice by all able people. It is worth mentioning here that the *Zakah*, when levied on the rich, is not difficult to pay, this being in accordance with the canons of equity. In the case of income and wealth which a person gets without any labour, e.g. from treasure-troves, it is very just to tax such properties at a higher rate. Also, as all the guiding principles of *Zakah* are derived from the *Quran* and *Sunah*, it is not permissible for the system to deviate from the path of absolute justice of *Islam* which, in accordance with, the state should be held resposible for the administration of justice. (Ahmed, 1982, pp. 311-326).

With regard to the principle of administrative feasibility, the *Zakah* has been precisely specified by *Islamic* law. The taxable limits and the rates, as well as the time of payment are all laid down by law. The individual paying it, therefore, knows exactly how much he has to pay and when. Thus all necessary adjustments to property can be made in order to pay the *Zakah* at the appointed time. Also, as regards the collection of the *Zakah*, the rules which govern it are so simple that no specialized knowledge is required. For instance in the case of land produce, *Zakah* is normally collected after each harvest, and is collected in kind (unless otherwise desired by the tax-payer); in other cases it is collected in cash at the end of the year. By offering the *Zakah*-payer the options to pay his due in kind or in cash does not mean that the payment of *Zakah* will be delayed but immediately he will be obliged to pay his at the current market price. Although this policy might make the task of the administrators of *Zakah* much more difficult, its advantages is that the storage and transportation costs will be avoided.

The underlying idea of paying the *Zakah* in kind and on a yearly basis is the convenience of the payer as in the case of land produce where it is easier for the payer to pay his due as soon as he is in a position to do so (ie. at harvest time). However, the payer can also pay his due in cash since the primary consideration is the convenience of the contributor. Nevertheless, it will be noticed that *Zakah* is convenient not only to the contributor but also to the tax-officials since they make their calculation at the end of the year, or at the end of 1ach harvest in the case of land produce. This method of paying the *Zakah* accords also well with the PAYE system, since the payment is directly linked to the possession of the *Nisab*. Moreover, the decentralization of spending and revenue authorities can greatly encourage the efficient collection and processing of the information on taxation and the administration of the policy in such a way that compliance is increased and evasion reduced.

With regard to the administration of *Zakah*, the most difficult problem is related to the determination of the market value of the *Nisab* particularly during the periods of inflation. In the developing countries where the inflation rates are often very high compared to the growth of production, this problem may result in a reduction in the total revenue yield as well as the net returns to the poor. This effect is quite significant in the case of *Zakah* from articles of trade and financial holdings where the *Nisab* is measured in terms of the market value of 85 grams of gold throughout the year. In the case of agricultural produce and animals, however, the effect of inflation will be less significant since the value of the *Nisab* for these categories takes place at the end of the year and therefore its real value will not be reduced.

The economic efficiency principle of *Zakah* was also a fundamental feature of the *Islamic* taxation system from the very beginning. Since the information required to levy the *Zakah* is readily available at the local level, the cost of collecting and adminstering the policy would be at minimal cost. Generally, the cost of administration is directly paid out from its proceeds as one of its expenditures. The restriction of the coverage of *Zakah* and its rates as well as the assignment of its proceed to specific types of beneficiaries, limit the government's power to tax and keep the cost of administration within manageable bounds. This is in contrast with the enormous number of tax legislations, collectors, inspectors, auditors, supervisors and other officials employed by many modern states to run their tax system. The relatively low rates of *Zakah* also limit the distortion effect of the policy on the economy and the general price level.

Furthermore, the question of tax-evasion is less of a problem under the *Zakah* policy since it takes as little as possible from the people's income or wealth. The rules of *Zakah* also can help to ensure legal protections against fiscal exploitation of the individual by the state and in turn this will help also in reducing the tendancy towards evasion. The idea of setting limits to taxation and the power to tax by the state, however, is also recently advocated by Brennan and Buchanan who suggest that tax reform must be analyzed constitutionally in order to minimize the decision-making costs and increase the compliance of the tax system (Brennan and Buchanan, 1980, pp. 187-205).

Beside the basic conventional principles of taxation mentioned above, the *Zakah* is also consistent with the objectives of growth and development and equitable redistribution of income and wealth. The economic growth objective is automatically satisfied since the taxing of the idle wealth and savings forces assets to be channelled into productive aspects. According to Abu Ubaid, the exact meaning of the word *Zakah* is growth, which is interpreted as the increase of property in this world and the growth of religious merit in the next (Abu Ubaid, 1981). The fact that *Zakah* is levied on idle wealth and income which exceed certain limits (the *Nisab*), means that hoarded wealth or income will decrease yearly if not employed in profitable business or other acts to keep it increasing. The connection of *Zakah* with religion makes it, perhaps, the best method known of taxing hoarded or invisible assets. The prohibition of hoarding in *Islam* is prescribed in many verses of the *Quran*:

> "And there those who bury gold and silver and spent it not in the way of *Allah* announce into them a most grievous penalty. On the Day when heat will be produced out of that wealth in the fire of Hell, and with it will be branded their foreheads, their flanks, and their backs.." (Surah 9, Verses 34 and 35)

The rates of *Zakah* being ordained by *Allah* and the *Prophet*, provide a stable tax code and certainty which can also encourage investment. The absence of special concessions and exemptions under the policy can also encourage small scale-industries which will not require high protection. This in turn will also encourage the full use of domestic capital and the maximum possible employment of workers as well as to reduce the revenue loss to the treasury. As regards the allocation of resources in an *Islamic* economy, priorities should be given to the production of the basic needs which can safeguard against the shortfall in the supply of necessities. In this respect, the state may restrict the supply of luxuries or divert resources to the production of necessities by employing other taxes which conform with the rules of *Islam* (Faridi, 1983, pp. 17-35).

With reference to the distributive aspects, the most important distinguishing feature of *Zakah* as a compulsory religious financial duty is that it transfers some of the income and wealth from the comparatively well off people to the poor and indigent. To protect the rights of the poor and to achieve distributive justice, the

Shariah has made obligatory the complete seperation of the *Zakah* budget from the general budget of the state. The poor beneficiary, however, need not ask or feel devalued via-a-vis his benefactor. Regarding the distribution of the *Zakah*'s proceeds, Faridi is of the view that it may also be used to finance public goods which enhance income earning capacity of the poor as well as improve the ideological and cultural receptivity of the poor such as education and health. The distribution generally takes the forms of both direct cash distribution and distribution in kind (Faridi, 1983). The statutory rate of *Zakah* and the fixed exemtion limit may also lead to a stable budget. However, the policy by directing much of its proceeds to the poor may also help to achieve economic stability by increasing the purchasing power and expanding aggregate demand. It is worth mentioning that the head of the state in *Islam* may impose new taxes according to changing circumstances as well as to meet certain needs and contribute to economic stability.

Although not all the principles are satisfied to the same degree, the *Zakah* nevertheless possesses certain definite advantages over modern taxes. One of the advantages of connecting *Zakah* with religion when compared with modern taxes is that the question of dishonest and evasion is not a serious problem for the tax officials. The second advantage is that it checks the tendency to hoard money, thus providing a powerful stimulus to investment in productive purposes. The third advantage of *Zakah* is that the heads of its expenditures have been clearly specified in the holy *Quran*. On top of these, expenditure is for the support of the poor and the needy for the relief of poverty and misery resulting from lack of financial resources. *Zakah* can also be used as a scheme of mutual support to assist debtors (*gharimon*) who are unable, for legitimate reasons, to pay their debts, and also to support wayfarers seeking temporary rest during their journey, what ever the reason for their travel, be it study, work or to perform the pilgrimage (Al-Qaradawi, 1981).

However, *Zakah* today can also be utilized for financing the social welfare and social security schemes of the modern state such as poor-houses, centres for free medical treatment, financial relief for unfit individuals, widows and orphans. This means that the categories of property defined in the early days of *Islam* does not have to be rigidly maintained. Similarly, the sources of *Zakah* can also be extended to cover problematic categories of property which share the same characteristics as those found in the conventional categories of property mentioned earlier.

4.3.7 Other Economic Implications of Zakah

By transfering parts of the incomes of the wealthy to the relatively poor groups, the *Zakah* affects both the consumption behaviour and the distribution of wealth, and thus of welfare, in an *Islamic* society. By making the wealthy responsible individually and collectively for providing the basic needs for those who have no income, or those whose income is to be supplemented, the *Zakah* directly affects the aggregate level of consumption, and thus of total demand, which in turn affects the total supply for goods and labour, as well as money. The flow of income between the rich and the poor in an *Islamic* society is particularly governed by its own concepts of spending and the desire to save. Spending and saving here constitute an automatic process, complementing each other and forming the consumption behaviour of the society.

The *Muslim* consumer, in order to enjoy the payment of the *Zakah* and satisfy his spritual values, should behave in a moderate manner and give priority in his choice of consumer goods to those which are strictly necessary. Wasteful consumption in general is prohibited since it will not lead to better allocation, or to an improvement in the productive capacity of necessary goods which are highly demanded by various sectors of the population. Beside the restrictions on excessive consumption, *Islam* also limit the consumption bundle for a *Muslim* by lawful goods, thus prohibiting investments in the production of any unlawful goods which contradict the tenets of the *Shariah*.

Restricting consumer choice, together with the abolition of wasteful consumption in an *Islamic* economy, affects positively the accumulation of savings and stimulates productive uses of resources. This does not mean that investment in consumer goods is not favoured or ignored; rather the main point is to put constraints on luxury goods and their excessive production. By avoiding wasteful consumption, the *Muslim* consumer becomes a utility maximizer not only through his satisfaction of material goods but also through the payment of *Zakah* and donations to meet the needs of the poor, thus fulfilling his religous obligations. In the contemporary context of the consumer theory, the total spending of a *Muslim*, as elaborated by Khan (1984), may be divided into: spending to satisfy his need for physical goods (x); and spending to meet the need of others (s). In a utility function form (U), this is summarized as follows:

U = f(x,s) with income constraint (I) where (I= x + s)

The deference between this model and the conventional one is that: firstly, the rational behaviour of the consumer is related not to the satisfaction of his own individual needs but to his fear of *Allah*, which implies the satisfaction of others' needs, namely those of the poor. Secondly, by limiting the consumer bundle to lawful goods, the choice for a *Muslim* is likely to be smaller than that which is available to non-*Muslims*. This means that the optimal choice will not generally relate to the set of goods available but to characteristics of goods which fulfil the ordering preferences in accordance with the teachings and ideals of *Islam*. The third and the most important element which signifies the consumption function in an *Islamic* society is the payment of *Zakah*, as an obligation to those who most deserve it. This type of spending in *Islam* is not at the expense of an individual's utility, but is a direct reflection of the prohibition of luxury consumption. These constraints on a *Muslim* will release more resources for the production of necessary commodities, the demand for which will increase due to the improvement of the purchasing powers of the poor through the *Zakah* and similar types of payment.

To illustrate the significant effect of *Zakah* on a *Muslim*'s aggregate demand, and thus on their aggrgate supply, let us consider a simple case of a *Muslim* society with initial endowment equal to (E), and with only two groups, group (A) the rich and group (B) the poor. We then assume that group (A) has $4000 and group (B) $2000, and that the satisfaction level of consumption for the society is $3000. Given this information, a rational consumer from group (A), the rich, will be expected to consume $3000 and keep $1000 as a saving or utilize it in productive uses; no hoarding is assumed to occur. For group (B), the rational behaviour is to consume all their resources in order to satisfy their basic needs with a marginal propensity to consume equal to unity. In the absence of the *Zakah* policy, the total consumption for this society will be equal to $5000, with group (A) left with $1000 and group (B) living below the satisfaction level.

When the *Zakah* policy is introduced, the extra income left with group (A) will either be transferred to group (B) thanks to the *Zakah*, or through new incomes as a result of investing the extra income in productive uses and creating jobs. The purchasing power of group (B), therefore, will increase to $3000, and thus pushing the total demand from \$5000 before *Zakah* to \$6000. The values considered in this illustration are in real terms; prices here can act as signals to mobilize or circulate extra income from the relatively well off group to the needy one, thus closing the gap in the acute distribution of wealth in the society. As a result the whole welfare level will also be improved.

In a recent empirical study on the consumption behaviour of *Muslims* in Scotland by El-Ashker, the social factors were found to shape an important part of the consumption function. As the findings of the study reveal, social-caring spending occupied second place in the ranking of the total spendings of the people studied. The first preference was spending on housing, with an an average percentage of 39, followed by social caring with a share of 22 percent. The ranking of the social-caring spending, here, is quite consistent with a *Muslim* consumer and the policy of *Zakah*. This, however, is directly related to the influence of ethics and spiritual values in shaping the optimal choice by *Muslims* (El-Ashker, 1985).

4.4 Other Levies in Islam and their Origins

4.4.1 The Kharaj or the Land Tax

The land tax in *Islam* is one of the oldest forms of taxation. In the early *Muslim* states, this tax was of particular importance and constituted the main source of revenue for financing the different expenses of the state. Most revenues are either directly linked to land or indirectly linked to it through developing it into another phase. In the field of *Islamic* fiscal policy, this tax is generally the starting point of almost all research on the topic, and from it many other taxes are developed. In the early works of *Muslim* scholars, this tax is widely known as "*Kharaj*", which generally denotes all tax revenues which might be derived from land, especially that owned by non-*Muslim* inhabitants. Technically, the term *Kharaj* refers to all taxes imposed on lands.

In *Islam*, this system was widely introduced in the era of Umar, the second *Caliph* of the *Muslim* state. The system was hardly used during the time of the *Prophet* and his first *Caliph*, Abu Bakr, since the boundaries of the state had not expanded very far. Distribution of the new lands which came under *Muslim* rule, however, was one of the problems that had to be solved in a justifiable way. The second *Caliph*, after careful study of the *Quran* and consultation with his associates, decided not to distribute the lands as spoils of war but to leave them in the hands of their previous owners on the provision that they pay a *Kharaj* tax to the state in return. These lands covered all of Iraq (earlier known as al-Sawad), Egypt, Syria and Yemen, and were either gained by treaty or conquered by force. The coverage of the levy policy under the system of the *Kharaj*, as reported by Abu Yusuf, included all agricultural lands owned by private individuals, public lands and meadows, and water sources, as well as honey collected from from the valleys or hills.

- **The Treatment of Agricultural lands**

The collection of the *Kharaj* tax from these lands is said to be divided into two kinds: the proportional and the fixed. The former generally consists of a portion of the produce of the land, which is directly linked to what the land is able to produce. This portion is very flexible and varies from half of the produce to a third, a quarter and up to a tenth of the produce. The ratio takes into account both the land fertility and the type of the produce. Thus in the case of fertile land it is high while for other types it is low. Cash crops were generally taxed at higher rates than those on food-grains. This kind of the *Kharaj* was also known as the *al-Muqasama* system of taxation. In this system the tax collector for the specific regions had the freedom to choose the rate best suited to the region and most amenable to the general policy of the Kharaj. (Ubu Ubaid, 1981).

The fixed *Kharaj*, on the other hand, was a fixed charge on the ground at so much of its natural produce or its equivalent in cash per unit area, or per tree in case of land planted with date palms and other similar types of orchard. The application of this kind of the *Kharaj* was to a large extent very limited and its imposition followed the rates adopted by the *Caliph*. The maximum tax bearing capacity in practice, according to Irfan (1970), was fixed at one half of what the land was able to produce. This was the maximum rate to be levied from the entire produce during the whole year. The tax was due at the end of each year, and the right to reduce or increase the fixed *Kharaj* rates as exercised by Umar could only be proved by the central authority (Al-Mawardi, 1978).

In the *Kharaj* system, especially the proportional one where the tax relates to the produce of the land and not to the land itself, the levy is due every time there is a crop. As a matter of fact, no *Kharaj* tax is paid if the entire crop has been destroyed by unexpected factors, e.g. unavoidable circumstances such as fire or extreme cold. Otherwise, as long as land continues to remain the same with regard to its method of irrigation and natural advantages, the tax is neither increased nor decreased by the tax collector. Generally, the factors which determine the tax-bearing capacity of the land as discussed by the early scholars, especially Al-Mawardi, are as follows: the first is that the person who assesses the *Kharaj* on a piece of land should consider the quality of the land by virtue of which the crop grown on it is valuable, or the defect which causes the produce to be small. The second factor relates to pricing; in so far as grains and fruit vary in price the *Kharaj* tax must, therefore, be assessed accordingly. The third factor to be considered by the tax collector pertains to the method of irrigation: the rate of *Kharaj* for crops irrigated with water carried on the backs of animals or raised by water-wheels is not the same as on land watered by running water or rain. The taxes are therefore related to the service provided to the farmer through irrigation provision.

The rates of the *Kharaj*, be they fixed or proportional, were very flexible. If, however, the land was unable to bear the rate imposed upon it, the rate was lowered to the extent necessary. In no case, however, was it permissible to increase the rates imposed by the *Caliph*. All cultivable but not cultivated pieces of land were subject to the levy policy. To avoid tax evasion, under the system implemented by Umar in the Sawad, any land had to be reported to the tax official, otherwise the owner would not have the right to buy or sell land. In the calculation of the *Kharaj*, the quality of the land, the kind of crop, and the methods of irrigation are to be considered when determining the bearing capacity of a tax-payer. As noted by Al-Saadi (1986), in cases where the levy is not collected in kind, the distance of a land from cities and markets may also be considered, since the price increases or decreases if the distance is shorter or longer.

One of the remarkable feature of the *Kharaj* policy is that the tax rates were directly linked to the taxable capacity and the principles of justice. The rates were relatively higher for crops which were naturally irrigated than for those artificially irrigated. The valuation of the tax is to be based on a just appraisal, neither overcharging the taxpayer nor damaging the authorities. Nothing should be leftto guesswork or valued on the basis of market prices. What is due should be taken in kind, but if convenient for both the taxpayer and the authority, the yield may be sold and its price divided proportionally between the two sides. This system of taxation by emphasizing or accepting the payment of the relative tax in kind, helps prevent injustice to both taxpayer and treasury. Under such a policy, market fluctuation and uncertainty can easily be avoided. The taxpayer, by paying the tax in kind, will not be worse-off or more well-off if crop prices fall or rise. The tax authority also will be more justifiable for the realized amount of the tax based on the production.

- **The Treatment of Public Lands and Meadows**

By public land we refer here to those lands which do not belong to anyone. The possession of these lands is by their re-usage after permission from the authority. The need to obtain a permit in advance is, according to Abu Hanifa, to avoid any dispute which might occur if any two persons intend to re-use the same plot of land. The owner is then entitled to pay the relevant tax. However, the land granted by the authority can not be taken back except by legal processes or if the holder does not re-use the land by cultivation or otherwise for three successive years without any reasonable reason.

Meadows, pastures and similar pieces of land in the *Sawad* were also covered by the land regulations. The general rule was as follows: meadows owned privately by the inhabitants and used for pasture and woodcutting were treated the same as other private property as regards sale, inheritance and similar rights. But the owners had no right to prevent free use of water for drinking and grass for grazing. Hunting and fishing were allowed on the land since fish and birds are not the property of the owner. The eggs of wild birds and honey were also free to the user of the land. With reference to taxation practice, the beneficiaries from those benefits gained from the land are asked to pay a proportional tax share. The ratio applied at that time was 10 percent of the realized benefits. However, in modern theories of welfare economy these benefits are quite similar to the external economies. The rules which govern the levy of a tax under the theory of economic externality are to a large extent similar to what had been practiced in the *Sawad.*

Generally, with regard to public lands and meadows and similar lands, the authority always has the right to grant any land if there is no threat to the public interest; otherwise if the granted lands caused any external diseconomies to the main owners then the authority has no right to grant them. Examples of such lands are the areas around water courses and springs.

- **The Management of Water Sources and Public Rivers**

Public water sources and rivers directly affecting land improvement and general agricultural policies were also covered by the general land regulations. As all inhabitants were partners in these sources, they were available to all for drinking and irrigation. In return users had to pay a tax of 5 percent from the lands irrigated from those sources. Of course the rate of the tax from the naturally irrigated lands is generally 10 percent of the produce and not 5 percent.

The main expenses of these water sources, such as the upkeep of walls to prevent flooding and dams and waterlocks, were the direct responsibility of the state. Since these expenses are in the public interest, they should be kept in order, for any maladministration will cause damage to agriculture and so decrease income from taxation. Owners who are directly benefitting from such water-courses may also share the cleaning expenses of those sources with the authority. Owners of private canals must participate in the expenses of digging and dredging of canals so that no public expense is incurred. Another policy which regulates the water-sources, as implemented in the Sawad, is the reservation of areas around these sources especially when owned privately.

- **Leasons from the Kharaj System**

Besides contributing to the total revenues of the early *Muslim* state, the *Kharaj* system had also contributed to the development of agriculture and to leasing contracts and agreements. The main agricultural agreements which followed the development of the *Kharaj* system are known as the *Musaqa* and the *Muzara* agreements. As defined by Abu Yusuf, the *Musaqa* is an agreement between the owner of land, trees or the like, and a labourer who takes the responsibility of irrigating the plants in return for a specified amount of common share in the produce. The traditions show that this agreement was first introduced by the *Prophet* when conquering the area known as *Khaybar.* The land was left to its owners, who took care of the palm trees by irrigation and fertilization, subsequently paying a proportion of their yield as tax. This proportion, as in the case of the *Khaybar* land, was determined as half of the total yield.

The *Muzara* is an agreement between the owner of the land and a peasant. Under this agreement, the land owner allots a particular plot of land for a specified period of time to the other party to cultivation, with the harvest to be divided between them. The landowner received a third or a fourth of the total yield. Under this agreement the *Kharaj* tax is paid by the owner. In a case where the two parties are *Muslim,* a tenth of the produce must be paid if the land is naturally irrigated. This one-tenth is known by *Muslims* as *Ushr.* According to Abu Hanifa, the *Ushr* is to be paid by the owner, although Abu Yusuf (his student) is of the view that the *Ushr* is to be paid from the produce by both parties involved in the use of the land. (Abu Abaid, 1981).

In addition to these agreements, the leasing of fields and trees was another form of contracts which had also been practiced in the Sawad. It was customary for the lessor of date trees to receive half or a third of the yield as rent. However, the view of Abu Yusuf is that all such leases are allowed and valid. As in the case of partnership contracts where one person hands over to another a sum of money to use for a business deal, and from which he will get half or a third of the expected profits, the same opinion could be applied to the leasing contract in which land is let on similar conditions. Abu Hanifa, the founder of the *Hanifi* school of jurisprudence, however, was against the lease of fields or orchards for a third, fourth or more or less of the yield. Abu Yusuf, in advocating the leasing process, refers mainly to the treatment of the field and palm trees of *Khaybar*. The leasing period was normally valid for one or two years, but it might be, and usually was, renewable.

- **Economic Implications of the Kharaj System**

The land revenue system of the Islamic state can be described as a comprehensive system of taxation which covers all cultivatable lands in the state. The wide coverage of the system is inherited from the policies which guide the system. So while the fixed *Kharaj* policy covers all lands, the proportional policy covers the produce of land: the fixed *Kharaj*, being based on the area of the land, encourages all lands to be developed and cultivated. Exemption from the tax under the fixed Kharaj system is possible only if the expenses of cultivation of the land are beyond the means of the land owner. On the other hand the proportional system of *Kharaj*, which relates the tax directly to production, may well be justifiable for both the taxpayer and the authority. Also, the tax is a suitable tool to avoid price fluctuation and any sources of uncertainty over the tax revenues which are directly linked to the realized production. The fixed *Kharaj* policy was first implemented during the rule of Umar. It was adopted after an extensive survey of the lands, and after considering all irrigation methods and other advantages to the land. The proportional *Kharaj* policy was developed mainly during the *Abbasid* period. It is worth mentioning that the two policies preserve the rights of the land owners and do not ignore their complaints when the tax is determined. (Al-Saadi, 1986).

To sum up, the *Kharaj* was a broad based levy and was used to achieve the goals of fiscal policy in *Muslim* states. It was different from *Zakah* in that its revenue was used to provide public goods and distributive expenditures, e.g. army salaries, child allowances and the provision of infrastructure, while *Zakah* is a levy used for specific social purposes.

4.4.2 The Jizya or Poll-Tax

The *Jizya* or poll-tax in the early Muslim state was another source of revenue. As defined by *Muslim* law it was a fixed sum of money levied on non-*Muslims*, mainly male, living in territories under *Muslim* rule. The tax revenue is the state's due for offering non-*Muslim* inhabitants protection for their lives, welfare, property, religious rites, and for exemption from military service. The tax is to non-*Muslims* what the *Zakah* is to *Muslims*. Such non-*Muslims*, whose lives and properties are guaranteed by the state, are called *Dhimmis*. (Maududi, 1961, pp. 12-13).

Under *Islam*, the *Jizya* was imposed in accordance with the *Quranic* text:

> "Fight those who believe not in *Allah* nor the last Day, nor hold that forbidden which hath forbidden by *Allah* and His *Apostle*, nor acknowledge the religion of Truth,

of the people of the *Book*, until they pay the *Jizya* with willing submission and feel themselves subdued" (*Surah* 9, *Verse* 29).

The term "subdued" in the *Quranic verse* is not used in a degrading or passive sense, but means obedience to the laws of the *Islamic* state. As *Imam* Al-Shafie comments in his book *Kitab al-Umm*, being "subdued" means being brought into the fold of the law. As interpreted by Al-Saiadi(1986), the *Jizya* is mainly a contribution made by non-*Muslims* towards the cost of their defence and protection; if *Muslims* fail to provide security and protection, the liability of non-*Muslims* to pay the *Jizya* automatically ceases. In the early practice of Islam, it is reported that the second *Caliph* ordered his governor of Syria, Abu Ubaidah, to refund the *Jizya* since the *Muslim* army was unable to defend the *Dhimmis* of Syria against the Byzantine attack. It must be pointed out here that the from the socio-economic point of view and the principles of natural justice, the *Jizya* is appropriate since every subject of the state must pay for themaintenance of internal security and the prevention of invasion from outside, regardless of whether he is a *Muslim* or a non-*Muslim* (Abu Abaid, 1981).

In general, the *Jizya* can be imposed either by agreement and treaty, in which case the amount is fixed with reference to the terms of the treaty, or by the state upon the population of districts conquered by force. In the case of the former, the state may require the payment of a lump sum in cash or in kind. The tax rate in such situations was agreed at one dinar or its equivalent. In the second case, when the tax is imposed upon a population conquered by force, the yearly rate is fixed in accordance with the taxpayer's ability to pay. The rates of the tax in this case vary from high rates on the rich to lower rates on the middle and lower classes (Irfan, 1970).

- **The Jizya: How it was Organized**

The levying of the jizya in the early *Islamic* period was fully systematised during the rule of Umar. The development of the system covered the methods of collection, the tax rates and the time of collection. In the Sawad for example, collection was in some cases carried out directly by state officials after recording all peoples who were eligible to pay. In other cases, the tax was collected from the whole village or city by a trusted person, who then payed it to the state treasury on behalf of the people. According to Al Saiadi (1986), records were kept of those eligible to pay or exempt from the levy. To apply ideal justice and to ease collection, the tax was paid at the harvest season, the most suitable time for the payers. The poor, and those who faced hardship in any one year, were generally exempt from the tax. Old people, women and children were usually not subject to the levy policy. Those who embraced *Islam* immediately gained exemption from the tax, but on becoming *Muslims* they became eligible to pay *Zakah.*

With regard to the rate of *Jizya*, the financial condition of the taxpayer is taken into account. The rich usually pay higher rates, while those who are not in a position to pay are generally exempt from the levy. The rates in general were low, and by paying the tax the *Dhimmi* enjoyed the right to practice his own religion and to have his assets and other personal possessions protected. The state was responsible for providing subsistence for the poor and needy, including non-*Muslims.* The duty of the state is to support the needy and improve the welfare conditions of its inhabitants. As reported in the traditions:

> "The *Prophet* warned against ill-treatment of the *Dihmmis* living within the boundaries of the *Islamic* state by saying: "He who opposes a *Dhimmi* or encroaches on his rights, or requests him to perform a task beyond his ability, or takes from him something against his will, shall have to answer to me on the *Day* of *Resurrection*" (Al-Shafie, *Al-Umm*, Vol.2 p.162).

4.4.3 The Ushur or Tax on Trade

The *Ushur* in *Islam*, was also developed during the reign of the second *Caliph*, who appointed qualified officials to collect the tax. These officials were called *Ashirs*, derived from the word *Ushr*. The term *Ushr*, has its origins in the days before *Islam*, and means literally the *tithe*. This tax was not in use at the time of the *Prophet* and the first *caliph* (Abu Bakr), when the main task was to spread the message of *Islam* and establish the *Islamic* state. But as the state extended its borders during the rule of Umar, trade with neighbouring countries played an important role in meeting the growing demands of the ever expanding population. According to Al-Saadi (1986), Umar was the first in *Islam* to impose the *Ushr* tax. It is said that when Abu Musa wrote to him, advising him that *Muslim* traders entering the territory of non-*Muslims* (*Dar al-Harb*) have to pay one-tenth of their goods' values in border tax, the *Caliph* sent the reply: "Take from them as they take from our traders, and take from the *Dhimmis* half of one tenth, and from the Muslim a quarter of one tenth."

The *Ushr* was levied on any person bringing goods into the *Islamic* state, by land or sea, for the purpose of trade, but its rate varied in accordance with the category of the trader. According to Abu-Yusuf, the tax was payable on the value of the goods, the minimum value subject to the tax being determined by 200 dirhams of silver, or twenty mithqual of gold or more, i.e. the *Nisab* for gold and silver respectively. The tax could also be paid in cash or in kind with a rate of 10 percent on non-*Muslims* living outside *Muslim* territories, 5 percent on *Dhimmis* staying within the borders, and 2.5 percent on *Muslim* traders. The difference in rates, as explained by S. Siddiqi (1979), is due to the fact that the *Muslims* pay *Zakah* on their trade articles whether or not they pass the custom authority, whereas the *Dimmis* are subject to this toll of 5 percent only by travelling for trade. The difference thus places the *Dimmis* and *Muslim* traders on equal footing without giving advantages to one class over the other.

In the light of the trade policy between *Muslims* and foreign merchants, it can be deduced that trade relations should be built on similar lines. However, certain imports might be exempted if there is a shortage of these goods and they are highly needed by the people. In the modern world this practice is used by many countries under various systems of trade protection, tariff and trade agreements between countries.

However, the main concern of the *Ushur* tax policy in *Islam* was to ensure that justice prevailed and oppression was banished from the *Islamic* state. The major policy tool used to secure these objectives was that the tax collection should be entrusted to honest and God-fearing officials, with clear orders forbidding them to collect from people more than they owe.

4.4.4 The Ghanima, Mines and Treasure-troves

These sources were also very important in contributing to the total revenues of the early *Muslim* states. The *ghanima* (war spoils) technically meant all property taken by force from infidels during war. This source continued to increase during the expansionist period of *Islam*. In pre-*Islamic* times, the victorious army or tribal chiefs used to keep everything they had obtained in war to themselves. Later the claim of the conquering army was restricted to four-fifths of the entire proceeds, with one-fifth kept for the benefit of the community. This distribution is based on the following *Quranic Verse*:

> "And know that out of All the *booty* that *ye* may acquire (in war) and fifth share is assigned to God, and to the *Apostle*, and to near relatives, orphans, the needy, and

the wayfarer" (*Surah* 8, Verse 41).

This method of distribution continued throughout the lifetime of the *Prophet* and his companions. However, the dynamism of financial administration is amply illustrated by the momentous decision of Umar regarding the restoration of the land of the Sawad to its original owners, and the distribution of all chattels, including animals, among the army after deducting one-fifth for the benefit of the community, i.e. the orphans, the indigent and the wayfarers. As regards land and other possessions which fall into the hands of the conquering army without actual warfare, they remain the property of the state to be used for the benefit of the entire community.

In a recent study of the distribution policy of the proceeds of similar sources in a modern *Muslim* society, Mannan (1986) holds that the policy may be changed in accordance with the requirements of the age, but without changing the basic objective, which is to achieve social justice. In the light of the early principles of distribution, he argues that the modern methods of confiscating the spoils of war by the state may be justified if they are spent for the benefit of the community. He concludes that the circumstances which compelled the distribution of the spoils of war among the conquering *Muslim* army are no longer in existence. At present soldiers are provided with regular salaries and all other modern amenities of life.

Along with the *ghanima*, mines were also an important source of revenue to finance the various expenditures by the state. According to the *Hanafites*, this tax is regarded as in the case of spoils of war, whereas to the *Shafi'ites* it is considered as *Zakah*. Produce from mines, as defined by the *Hanafites*, is of three kinds: that which is solid but may be melted down, such as iron, gold, silver, copper, etc.; that which is solid but does not melt (e.g. coal); and that which is liquids and does not become solid, such as water and oil. For the first group, the tax is to be levied at the rate of 20 percent of the produce. The argument is that such mines are like the treasures in the possession of infidels before they came under Muslim jurisdiction, and as such are subject to one-fifth in tax. Mines which are not hard to work are free and are not subject to any tax, e.g. under ground water deposits. Such mines should not be given to individuals since it is against the interest of the entire community and might lead to exploitation by a few individuals. Recently, Siddiqi (1979) and Mannan (1986) have suggested that the state has every right to exploit and nationalise mineral resources for the benefit of the society, and comment that in today's world the situation has changed and this source might result in the creation of a multi-millionaire class if they are allowed private ownership.

Like the *ghanima* and mines, the treasure-trove in *Islam* is also subject to a levy of one-fifth. The case of treasure-troves is generally similar to that of mines. The *Shafietes* and *Malikites*, for example, in order to differentiate between them, use the words *maadan* for mines and *rikaz* for treasure-troves; the *Hanifite* doctors, however, use the word *rikaz* for both, and differentiate treasure-troves by the use of the word *kanz*. All these words have similar meanings in the *Arabic* language but carry different interpretations. In general mines, always imply treasure-troves, but the reverse is not always true. The treasure-trove might be a kind of property lost and found in a land, or it might be something recently discovered by the user of the land. If the finder is a *Muslim* or a *Dhimmi*, he is entitled to four fifths of the treasure. But if the finder is a foreigner, then the entire treasure belongs to the state. Mannan (1986) argues that if the possession of such treasure-trove lead to an acute distribution of wealth, then the nationalisation of treasure-troves may be justified by the *Islamic* state.

Zarqa, in considering the distribution of natural wealth, is also of the opinion that an *Islamic* state is allowed to take the necessary steps in order to restore justice and guard the interest of the public Accordingly, natural resources and public utilities should not be subjected to individual ownership since that will lead to the accumulation of wealth in few hands. These resources, therefore, should be distributed and utilized for the common interest of all citizens, particularly the needy people. These natural resources and public utilities may include water, fire, public land and pastures, as well as all minerals on the surface. As regards mineral under the surface to which there is no access except by considerable effort and expenditure he is of the view that private rights over natural wealth which induces the undertaking of the burdens and risks of exploration are to be permited at a minimum level (Zarqa, 1988, p.168-69).

Chapter V

The Sudanese Experience of Zakah
Salient Features, Policy Changes and Developments

5.1 Introduction

The purpose of this chapter is to outline the salient features of the recent practice of the system of *Zakah* in the Sudan and to assess the major developments in policies and legislation. The economic implications of the policy on the taxation structure and on revenues will also be considered throughout the discussion. The coverage of the chapter will consider the whole period from April 1980, when *Zakah* policy gradually began to be brought in by the government, up to the end of 1988, when the latest information about its practice was collected.

The experience, however, is not the only one throughout the history of the country, as there was a similar policy during the rule of the *Mahadist State* from 1881 to 1898, together with other Islamic levies such as: *Khraj* (land tax), *Ushur* or (tithes) on trade, and *Jizya* (poll-tax) on non-*Muslims*. These taxes yielded significant revenues, and were directly under the responsibilty of the treasury house; known as *Bait-al-Maal*, which was the only authorized unit for financial affairs at that time. The collection of these taxes; particularly the *Zakah* , was compulsory for *Muslims* and the ruler was primarly responsible for this with the assistance of honest people knowledgable in the *Shariah* (Al-Gadal,1983).

Following that experience, the practice of *Zakah* continued merely on a voluntarily basis by consiencous *Muslims* until the early nineteen eighties when the policy was again brought under the responsibilty of the state. The introduction of the policy, however, is the first time in the modern history of the Sudan, if the starting point is taken as its political independent in January 1956. As the policy has not been adopted for a long period of time and as during this period many economic changes have been taking place, it is not surprising that there have been many problems and difficulties in practice. The rest of this chapter, will mainly be devoted to an assessment of how the recent system of the *Zakah* has been implemented and to the elaboration of the major difficulties that have been encountered with it in practice. Also the economic implications of the policy and its impact on the taxation structure will also be considered.

5.2 Developments in Legislation and Policy

Throughout the 1980's the expansion in the scope of *Islamic laws* in the Sudan brought about a significant transformation in the nature of the state and its responsibilities. Accordingly, the implementation of the system of *Zakah* appeared to constitute one of the main challenges as far as the government was concerned. Their responsibilties, therefore, have included the issuing of new laws, the designing of suitable policies and the supervision as well as the following up of the implementations of the relevant policies.

Legislation immediately began to develop from a voluntarily policy of levying *Zakah* in the beginning to a compulsory one in the later stages of the implementation. The first step of implementing *Zakah* as an official policy started in April 1980, when *Zakah Fund Act* of 1980 was first announced. The suggested policy at that stage was that *Zakah* should be collected voluntarily from individuals. That policy then continued to dominate the implementation of *Zakah* until September

1984, when a compulsory policy was introduced by the announcement of *The Zakah and Taxation Act.* Since then a compulsory policy of the *Zakah* continued to be the only one in force although two amendments in the act have taken place; one in the year 1985, when the policy was jointly administered with taxation and the other in 1987, when its administration has seperately been established. These later changes have only been concerned with the organizational structures and the administrative procedures of the policy. Each of these two stages of developments in the policies; the voluntary policy or the compulsory one, will seperately be assessed and examined in greater detail in the next parts of our discussion.

5.2.1 Salient Features of Zakah, Pre 1984

This period is characterized by the enforcement of *Zakah* under the supervision of the Fund Department for the period from April 1980 to September 1984; i.e after the declaration of the *Zakah* Act of 1980. The main aims and objectives of *Zakah* at that stage were limited to the following:

(a) To encourage *Muslims* to perform *Zakah* ; one of the five pillars of *Islam.*

(b) To enlighten people of its importance as a religous matter as well as an instrument for socio-economic changes.

(c) To improve technical measures of how to specify the required limits for *Zakah* and to define clearly the sources of wealth that are to be covered in practice.

(d) To keep adequate records and statistics of the various sources of revenues as well as of the people eligible to receive *Zakah* .

Moreover, the Act has been also proposed to promote and encourage research and academic seminars and workshops to assist in the developments of the current practice and to secure the future success of the policy. Without these efforts the present success, as we shall see when the study progresses, would be out of the question.

The policy of collection and distribution at this stage was following a voluntarily type of practice whereby the payers have the options to distribute directly their *Zakah* due to deserving people or to send them to the Fund Department which would then be responsible for the distributional aspects of the revenues. However, although a voluntary policy was not the one prefered by the government, as proposed by the theory, the newly established nature of the Fund and its limited resources and experience were the main factors for choosing that policy.

Another factor which can be added to the causes for applying such a policy is related to the fact that many of the payers who used to distribute *Zakah* before were not happy to send their dues to the Fund at that time. This unwillingness to send the *Zakah* to the Fund by the traditional payers was primarily due to their doubts about the ability of the Fund's staff to carry out properly the responsibilty of distributing *Zakah* and also to their dissatisfaction with the good intentions of the government to apply seriously that policy.

Even *Islamic Banks* such as: the *Faisal Islamic Bank*, the *Tadaamon Islamic Bank* and the *Sudanese Islamic Bank* which, according to their constitutions, used to pay the *Zakah* out of the paid up capitals plus the net profits, were very relectant to send all of their shares but only a small part of them. The remaining parts were then directly distributed by these institutions to needy people. It is worth mentioning here that these Banks were in a better situation than the Fund in terms of establishment facilities and of experience. They even have within their organizations seperate departments for the *Zakah* together with Islamic Shariah Commitees to look after and approve the distributional aspects of the *Zakah* .

As a result of applying such policies, the revenues generated by the Fund were very low if compared with the potential sources of revenues. In response, total distributed amounts of revenues, throughout the whole period, were not exceeding one and a half million of the Sudanese Pounds. As it has been indicated in the annual reports by the department, the overall performance of revenues for the period from 1980/81 to 1983/84 were as shown in table 5.1 below :

Table 5.1: The Performance of Revenues during the Fund's Period

Years	Revenue Yield	Annual Rate of change
1980/81	175,735	–
1981/82	181,873	3.5%
1982/83	345,351	89%
1983/84	713,412	106%
Total	1,416,371	—

Source: The Reports by the Department of Zakah .

Note: Values in Sudanese Pounds.

As Table 5.1 shows, it can be readily noticed that the revenues collected by the Fund Department have gradually developed in both volumes and percentages. The total revenues was increased from 175,735 Sudanese Pounds in 1980/81 to 713,412 Sudanese Pounds in 1983/84, with a total rate of an increase equal to 406 percent. The rate of growth in revenues between the successive years has accounted for 3.5

percent, 89 percent and 106 percent for the years 1981/82, 1982/83 and 1983/84 respectively.

These figures demonstrate good progresses in the growth of revenues, in both absolute amounts and rates of increase. However, if these figures are compared with those of the *Islamic Banks* which were in operation at that time; namely, the *Faisal Islamic Bank*, the *Tadaamon Islamic Bank* and the *Sudanese Islamic Bank*, they would be of no significant value. According to the annual reports of these banks during the period from 1981 up to 1984 the total revenues collected from *Zakah* on depositors and shareholders have amounted to nearly five millions Sudanese Pounds; i.e. about three and half times the revenues collected or received by the Fund Department. Table 5.2 below presents in detail the overall amounts of revenues paid by those banks, out of their capitals and net profits, during the period 1981-1984 in thousands of Sudanese Pounds.

The relatively better performance of revenues by the *Islamic* Banks were mainly influenced by the following factors: Firstly, the accesses of the Banks to the sources of the *Zakah* have been quite easier and directly under the control of the banks' officials. For instance the banks, without spending any more expenses, can easily approach their customers and request them to pay their dues to them. Moreover, as the Banks pay the *Zakah* out of their capitals and profits, the deduction of the *Zakah* can easily be calculated by their staff from the final accounts at the end of financial years. Secondly, these banks being well established with qualified staff and equipment, they were in a better positions to distribute the collected revenues and keep a good records of the cases of the needy persons. This in turn will encourage more payers of *Zakah* to send their payments to the banks and make them confident in the ability of the banks to allocate the *Zakah* 's proceeds.

Table 5.2: **The Zakah Proceeds Distributed by the Islamic Banks**

Banks	Years				Total	
	1981	1982	1983	1984	values	%
Faisal Bank	170	734	1,942	1,159	4,005	81
Tadamon Bank	–	–	351	301	652	13
Sudanese Bank	–	–	51	236	287	6
Total	170	734	2,344	1,696	4,944	100

Source: Annual Reports of the Islamic Banks.

Note: The decrease in revenues distributed by the banks in 1984 is due to their participation in the revenues of the Fund and also to the shift of some depositors and shareholders to send their payments directly to the Fund Department.

On the other hand, the relatively weak performance of revenues by the Fund was mainly caused by its limited experience and the lack of well qualified staff. These factors made the Fund unable to mobilise many of the resources which were liable for the *Zakah* , e.g. agricultural sources, animal wealth and minerals. The only source of revenue was from articles for trade and financial holdings within the reach of the Department. In particular the shares sent by the *Islamic* Banks were constituting a signficant part of the revenues originating in the Fund. The resources of the Fund were not only limited to the easiest ones, but they were also restricted to a very limited area, namely the region of the national capital (Khartoum). Other regions, however, were totally excluded although they contain many of the resources which could be mobilized by the policy, e.g. agricultural produce, animal wealth and minerals as well as articles for trade and financial holdings.

With regard to the policy of distribution by the Fund, it was governed by the ear marked eight groups of beneficiaries that have been stated in the *holy Quran.* These are: the poor, the needy, the employees, those whose hearts have been reconciled, those in debt, freeing of slaves, in the cause of *Allah* and the wayfarers (*Surah* 1X, Verse 60). The discussion of of these beneficiaries will be considered with more details in the section about the distributional aspects of the *Zakah* later. Among the eight groups a particular emphasis by the Fund was on the poor and the needy who were relatively easier to screen and identify compared to other groups. According to Al-Sauri (1987), the Fund had succeeded in advancing assistances to more than seven thousands of the poor and the needy families. The choice of these is based on the information accumulated to the Fund Department by the local committes in region. The assistance was in particular aimed at the needy people, the handicaped, the orphans and the elderly peoples as well as the needy students and the refeguees from the regions which were suffering from a drought at that time.

The distribution, however, was not only taking the forms of assistance in cash, but in many cases it was taking the forms of direct helps in kind. For example, the Fund has provided skilled people who lack the sufficient capital to own the essential tools of production with the releavant tools so as to convert them into productive factors rather than being dependent on others. These helps in kinds included, for instance, the provision of sewing machines for people with skills in dress making as well as the provision of carpenters and craftsmen with the releavant tools.

Besides the relative success of the Fund in distribution, it has achieved also very good success in publicising the new policy and in drawing the peoples' attention towards its importance as an obligatory practice as well as a useful instrument for social changes and income redistribution. So many pamphlets and circulars have been issued and distributed to enlighten people about the new system and to explain how technically the *Nisab*; the minimum taxable limits, and rates are specified or calculated. Moreover, the Fund also succeeded in organizing conferences and seminars to encourage research works on the topics and to discuss the real difficulties and problems facing the implementation of the ploicy. Without these efforts, however, the present progress and developments in the policy would be out of the question.

Despite the success of the Fund in distribution and in publicity, there were several negative factors which must be counted against its practice: Firstly, the choice of a voluntary policy of administration has not been the most suitable one. Neither the theory nor the early practices had suggested such a policy (Al-Qaradawi, 1985). The shortcomings of that policy, however, were not only reflected in the low performance of revenues as we have discussed earlier, but also in the assessment and evaluation of the real beneficiaries from the distributed revenues. As the funds distributed in accordance with that policy have not been controlled by one channel; e.g. by the Fund, the information and criterion for evaluating the most deserving people would not be uniform since each channel will apply subjective measures in assessing the beneficiaries from *Zakah* .

The second point against the Fund's experience is that it has not been properly established with either qualified staff or sufficient equipments. As a result the *Zakah's* base has been very narrow. It was only limited to the voluntarily contributions by individuals and the *Islamic Banks* which were based on the articles for trade and financial holdings. This led, as we have mentioned earlier, to the restriction of the policy in a particular regions of the country; mainly, in the Khartoum and its boundaries. A further point that could raised against that experience is that the total number of staff employed by the Fund did not exeed twelve throughout the whole period. But if the small number of staff is compared to what has been achived, then the general performance would be quite satisfactory.

5.2.2 Developments in the Practice of Zakah after 1984

Following the Fund's practice in the early 1980's, the government, in March 1984, took further step by announcing the *Zakah* and Taxation Act of 84 showing how the system is to be implimented, the coverage of its base and the methods of assessment and collection. The Act of 1984, unlike the previous one, suggested a compulsory policy for *Zakah* on all individuals liable for it, i.e. not only paid by conscientious individuals as in the case of the Fund. Al-Qaradawi, in a recent comprehensive work on the subject, has also strongly recommended a compulsory policy and regarded as the most relevant to the modern practices of the policy. As he pointed out, the second *Caliph*; Abu Bakr, clearly put the responsibilities of collecting and distributing the *Zakah* directly under the control of the *Muslim* ruler. He even declared a holy war against those tribes which refused to send their *Zakah* to the public treasury, previously known as *Bait-al-Maal*, (Al-Qaradawi, 1983). In Sudan, such a type of policy was well known during the rule of the *Mahadist* from 1881 to 1898 and from which the recent experience has benefited much (Abdelqadir, 1988).

In accordance with the Act of 1984, all *Muslims'* residents will be eligable for the payment of *Zakah* if the *Nisab* is fully obtained. The term "residents" here refers to both Sudanese nationals and also to other *Muslims* who are permenantly working or living in the country. The Act covers not only the residents who live inside the Sudan, but also Sudanese working abroad. *Non-Muslims*, however, are not eligable to pay the levy, but on the other hand they will be liable for a solidarity tax on their wealth with an annual rate equal to 2.5 percent, as analogous to the *Zakah* on *Muslims* .

The coverage of the policy as has been defined in the Act, includes almost all conventional sources of revenue; agricultural produce, articles for trade, animals, minerals and treasure-trove, in addition to the new sources which have recently been incorporated. These new sources include incomes from wages or salaries, rents, capital gains, industrial products as well as incomes from extractive industries and productive properties. The identification of each of these sources and the difficulties encountered with their implementation will critically be assessed and examined in the coming sections.

5.3 The Zakah on Agricultural Produce

This source is one of the Sudan's most important factors which contribute to the gross domestic product (GDP). On average agricultural production accounts for about 40 percent of the total GDP. The term "agricultural produce" as has been considered for the purposes of the *Zakah* , refers generally to all kinds of the primary agricultural produce which can be produced by a farmer, especially those which do not perish. As has been defined in the Sudanese Act, Article (31). "The *Zakah* of agricultural produce is to be levied on all grains or beans which can be stored or are edible and on oil seeds as well as on vegetables and fruits". This covers: all kinds of grains and beans and also includes the industrial crops such as cotton, sugar cane, groundnuts and arabic gum. The definition in consideration has incorporated both of the views considered by *Muslim* scholars in the past as well as the contemporary views of *Muslims* .

With reference to the early concepts, the main views which have dominated the literature, are those belong to the four famous schools of *Islamic* thought which have been lead by *Imam* Malik, El-Shafie, Ahmed Ibn Hanbal and *Imam* Abu Hanifa. *Imam* Malik and El-Shafie, however, are of the opinion that "the *Zakah* should be paid only on edible crops that can be stored". Their argument, as has been explained by Abu Ubaid in his fameous book *Kitab-al-Amwal*, is based on what is narrated from the *Prophet* (p.b.u.h.), who said to has imposed the *Zakah* on produce which were fit for food and could be stored (Abu Ubaid, 1980). A similar point of view has also been made by *Imam* Ahmed but with little change in the concept. He defines the term agricultural produce to cover not only the produce which can be stored or are edible, but also he has added to them those produce which can be dried or weighed.

Imam Abu Hanifa, unlike the previous ones, has followed a slightly different concept in his interpretation. He is of the opinion that all primary agricultural produce is to be considered in the calculations of the *Zakah* irrespective of whether they can be stored, dried, weighted or are edible. His emphasis, therefore, is on the category of the wealth itself rather than on the characteristic of the produce. This view later appeared to be the dominent one in most recent writings on the topic by contemporary *Muslim* Scholars. Al-Qaradawi (1985), makes a very good case for how the modern implementations of the *Zakah* should be. He treats the previous opinions of *Muslim Jurists* as quite suitable optional policies, but he regards the

Hanafi's concept at present as being the nearest to justice and the spirit of the *Shariah*. It provides a broader base for the *Zakah* and allows for more flexibity in including many agricultural sources which might not fit with the earlier mentioned criteria.

Keeping these views in mind, the Sudanese practice seemed to me more closer to the *Hanafi's* enterpretation than to others. It is self evident, as far as a comprehenisve taxation policy is concerned, that the *Hanafi's* concept is likely to be the most suitable choice. It can be justified on both equity and economic grounds. By the inclusion of all agricultural produce in the tax base, every additional capacity of a producer will be considered and this will immediately meet with the equity criteria. Also, as more revenues will be generated the level of distribution will be improved which in turn will automatically improve the purchasing powers of the poor which again will feed back into improving production and employment levels. This, however, will satisfy both the economic and growth criterion of a taxation structure. Furthermore, the expansion of the *Zakah* base to include all produce will also help in the information generation process of each produce and in turn this will assist more in setting the future plans and the development of the agricultural sector as a whole.

A possible point that might be raised against the inclusion of all produce; namely, vegetables and fruits, is that the ability to administer such produce at this stage of the experience is doubtful and it may not be possible at all to carry out the administration's procedures in a competence way at lowest cost. The main points for not including perishable produce into the base, particularly, at the moment, could better be summed in; Firstly, the organizational structure of the Department has not been well established or equiped. It is lacking both the expert staff and suitable facilities to allow for a better comprehensive assessment of all agricultural produce, especially, in a large country like the Sudan.

Secondly, .the marketing facilities were not sufficient, and still are not, to gurantee reasonable revenues and profits. The sources of risk and uncertainty which will affect the marketing conditions for these types of produce are caused mainly by instability in the market's prices of these produce and insufficient storing facilities. Further, even if the levy is to be considered in kind, the adminstration is not competent enough to sell them profitably or even to hand them instantly to deserving people before they may perish.

To overcome these difficulties, in the meanwhile, it seems to be more convenient if perishable produce like vegetables and fruits, are to be treated as articles for trade rather than agricultural produce. This, however, will neither distort the overall performance of revenues since the produce will be taxed through another channel, nor will it violate any of the criterion of the policy. The only change is that the responsibilty of paying the tax will have been shifted from farmers to traders and businessmen. One of the reasons which might be raised for the treatment of such produce as articles for trade is that their production is not terminated or restricted to a harvesting season or a specific time of a year.

For example the production of vegetables and some fruits may have an annual cycle. This, however, would not make the determination of the *Nisab*; the minimum limits for the levy, an easy job, but it will require additional efforts to keep good records of the produce and the continuous changes in their relative prices with reference to those of grains and beans which are regarded as the numeraire for this category. Moreover, if the *Zakah* of such kinds of produce are to be distributed in kind, the problem is still that they might not suit the demands of the needy people who will be entitled to them.

5.3.1 How Taxable Limits and Rates are Determined?

The assessment of the taxable limits and the determination of the exact rates for this category takes place normally after the close of the harvest season. So whenever the *Nisab* at that time is attained, the levy of the *Zakah* will immediately be considered. The rate of 10 percent will be applied when the produce is naturally being irrigated and the rate of 5 percent will be imposed when the produce is being irrigated by artifical methods. The term "naturally irrigated", here, refers generally to all rainfed lands and also to lands irrigated by flood or by natural springs and similar natural means. The cost of production, using these methods, is assumed to be very low as it depends on costless or primitve tools of irrigation. This is why a high rate of 10 percent is proposed to be implemented. The term "artificially irrigated lands", on the other hand, signifies all other lands which are irrigated by modern methods such as dams and pumps as well as those irrigated by traditional methods which require additional costs or human efforts. In such cases, as the cost of prodution is expected to be relatively higher than with the natural methods, a low rate of 5 percent is proposed to be imposed.

However, in the cases when the two methods of irrigation are simultaneously being used, the suggested solutions by the Sudanese practice are as follows: Firstly, if the irrigation is dominated by natural methods, the rate of 10 percent should then be considered by the tax officials. Secondly, if the irrigation happens to be dominated by artificial means, then the rate should be approximated to 5 percent. Finally, if the two methods are equally used, then an average rate of the two; a rate of 7.5 percent, is recommended to be imposed (Abdel-Qadir, 1988).

In the assessment of the *Nisab*; the minimum taxable limits, for the different crops produced by a farmer, the following steps are suggested to be appropriate to the case of the Sudan:

(a) For any crop if the *Nisab* is obtained by a farmer from the first harvesting of his land, then the levy will immediately take place with the relevant rate as explained earlier.

(b) If the *Nisab* for a specific type of produce is not been attained from the first harvesting, then the produce of the second harvesting of the same land and during the same year, will be added to the first one to check for the completion of the *Nisab*.

(c) If for a particular crop the *Nisab* is found not to be attained through the whole year, then the homogenous crops of a farmer's produce during the same year, should be added together to complete the *Nisab*; e.g wheat and barley may be combined as one produce since they share the similar characteristics.

(d) If a farmer is possessing different pieces of lands during a year, then the produce from the different pieces should be pooled together to form the *Nisab*.

5.3.2 Methods of Collection

The methods of collecting the *Zakah* of this category, differ from one produce to another in accordance with the systems of irrigation and the organizational structures of the production. The methods also vary between cash crops and others as may be determined by the agriculture policy makers. The main methods now being in practice, so far, can be summed up in the following:

(a) The collection by means of Crops' markets;

(b) The collection through the Centres of production;

(c) The collection by using presumptive techniques;

(d) The collection by guarding the routes of crop movements, and

(e) The collection by means of declaration forms.

(a) The collection by means of Crops' markets

This procedure is the most important of the methods now being in use for the *Zakah* of agricultural produce. It has the largest share in the total revenues from that sector; on average it accounted for more than 65 percent of the total revenues from the agricultural sources. The procedure, so far, is widely implemented in the regions where there are good marketing facilities. The leading and the famous market in that respect now is the one in the city of El-Gadarif; one of the most important cities in the eastern part of the Sudan. The market is situated in the heart of the mechcnized farm areas and it is surrounded by a very rich rainfed lands. This market is the only one so far which has been, at the moment, utilized for that purpose (Al-Sauori, 1987).

The collection, here, is carried out by the markets' officials when farmers bring their crops to the market. These officials will record all information about the farmers and the total production for the purpose of the final assessment at the end of the year. The *Zakah* then will be levied with either the rate of 10 percent or the rate of 5 percent of the produced amounts. The rate of 10 percent will generally be imposed on crops produced in a naturally irrigated lands, whereas the rate of 5 percent will be applied to crops produced in systematically irrigated lands and also to those produced under the mechanized farm schemes.

From any amounts brought to the market, the levy policy will directly take place irrespetive of whether the *Nisab* is attained or not by a farmer. The examination of the *Nisab* will only be considered at the end of the year, when the harvest season is over. Then, at that time, if the *Nisab* is found not to be obtained by a farmer, he will be refunded by any extra amounts exempted before or their equivalent values. As it is reported by the market's officals at the city of al-Gadarif, that almost all farmers were found to obtain the *Nisab* from the first amounts they brought to the market (Abdel-Gadir, op cit).

The collection of the *Zakah* by using this method, however, is not expensive since it requires only the control and supervision of the entrances to the main crops' markets and the establishment of storing facilities which are usually available in many of larger markets for crops. The procedure, in addition is also quite close to the traditional systems of collecting the local taxes and rates before with some minor changes and developments in the techniques.

(b) The Collection through Centres of Productions

This procedure ranks in important immediately after the previous one, about 30 percent of the total revenues. The method, however, is a centralized technique for collecting the *Zakah* . It is widely applicable in the centrally managed agricultural schemes and projects. The application of this method in the Sudan is limited to the cash crops under the supervion of public schemes. These include, for example, cotton and wheat produced in the Gezira Scheme, in the central region, and also in the Rahad and El-Suki schemes in the eastern parts, as well as sugar cane and groundnuts produced in the schemes under the control of public enterprises.

These crops, as they are all either financed from public sources or their marketing is fully monopolized by public corporations, farmers have no option to chose the type of the produce they like or even to deal in their marketing.

For these agricultural produce, the *Zakah* is directly leviable through the centre after all neccessary expenses that have been provided to farmers by the relevant schemes or by the government are deduced. The following items are generally deductable: expenses of irrigation; fertilizers; chemicals for crops' protection; and finally administrative expenses. The remaining balances then form the base for *Zakah* , which will be implemented at the rate of 5 percent of the balances which conform with the *Nisab* . It is worth noting that expenses financed by farmers from their own resources are not subject to the deduction policy. The justification for not exluding expenses which are financed from private sources, as explained by Ibn Hazm, is due to the fact that private sources are themselves part of the system and therefore should be included in the calculations of the *Zakah* (Al-Mawrdi, 1978).

One of the advantages of using this procedure is that it is less expensive and will not require any more staff for the collection since the centre will look after that matter. In the centre, as full information on each farmer's produce as well as the equivalent values will all be regularly recorded and updated, the levy can smoothly be carried out by just exempting from the net balances which satisfy the conditions of the *Zakah* the value of 5 percent. One possible point which could be counted against this procedure is that the administration expenses might be very high when schemes in question are not operating efficiently. In such a case, however, farmers will not be motivated to produce more, since those high expenses will negatively affect the earnings of the farmers. But, even so the postive side of the method is still that inefficiencies in administration might be detected and overcome in the future.

(c) The Presumptive Procedure of Collection

This is also one of the useful techniques which have been considered in the specifications of the *Zakah* base for this group. The procedure, as has been advocated in *Muslims* writings on the topic, is one of the recommended procedures by the *Prophet* (p.b.u.h.) and his immediate successors who were said to have been allowed the assessment of dates and similar produce by using such a technique. The determination of the *Zakah* here, so far, is not based on the actual weight or volume of the produce, but is directly linked to the estimated and predicted amounts by expert and knowledgeable people in the *Shariah* . It is of interest to note here that such a method is highly emphasized in the current practice of the *Zakah* in Saudi Arabia where at least two thirds of the estimated produce is to be subjected to the policy of the levy (Salama, 1985).

The assessment, so far, should be undertaken by expert and honest people. This usually takes place when the produce is about to give its fruit. In the Sudan, the technique is widely applicable in the regions which are out the control of the main agricultural schemes and the marketing centres. In particular, the method is often used in the cases of dates and similar produce and is also applicable for many crops which are not covered by the procedures that have been mentioned earlier.

(d) The Collection through Controlling Crops' Movements

This method is concerned with the collection by means of following up the movements of crops between the regions of production and the centres of consumption. The procedure, however, is primarily based on establishing stations for the collection on the strategic routes and junctions of traffic to record every truck or vehicle loaded with crops which passes through those places. Accordingly any driver will be required to show a certificate of paying the *Zakah* before he passes that zone. If no certificate is shown, he will be asked to pay the *Zakah* and then he will be issued a certificate showing the amounts paid and the total load of the truck. If the *Zakah* has already been paid, the following information should be completed by each driver and then to be sent back to the central authorities; the Department of the *Zakah* or the regional offices for the *Zakah*.

1 The name of the driver and the owner of the produce;

2 The owner of the truck and its serial number;

3 The name of the producer and the area of production; and

4 The quantity of the produce carried.

This information then will be saved as a record and for the general assessment as well as for researches and studies.

(e) The Declaration Form Procedure

This is a general procedure of collection. It is lying directly under the control of the Department and also is considered to be one of the official sources of information. With due procedure, all farmers, whether they are literate or illiterate, will be asked to fill in a declaration form containing all possible information about him, his farm's size and the methods of irrigation as well as the total quantities of his produce throughout the whole year. This information then will be used as a reference for each farmer and also for comparison and studying purposes.

With regard to this procedure the following points should be born in mind: Firstly, the homogenous groups of agricultural produce should be classified together. Secondly, the produce of each year should be combined together even if they are produced at different times of the year. Finally, the produce of a farmer from the different pieces of lands should be pooled together to form the *Zakah* base. The completion of this information, however, is compulsory and anyone who refuses to present it may be subject to legal investigations and hence to a penalty cost.

5.4 Zakah on Articles for Trade and Financial Holdings

The term "articles for trade" here describes all types of goods and commodities which are intended for trade. It covers generally almost all foodstuffs, clothing, jewellery, lands, houses as well as some forms of properties which can be dealt with in commercial transactions and deals with other assets such as real estate and moveable assets. The term "monetary holdings", on the other hand, signifies all forms of cash and liquid financial assets such as gold, silver and bank notes. The minimum taxable amount for such a group is when the total of holdings of a *Muslim* amounts to the current market value of eighty five grams of gold which is regarded as a numeraire value to determine the relative values of other traded goods.

The rationale of choosing gold as a numeraire value, as advocated by many recent *Muslim* scholars, is mainly related to its relative stabilty in the market; particularly, if it is compared with other items suggested by the general theory of the *Zakah* (Zurqa, Salama,...etal, 1985). Al-Qaradawi is also of the same view in regarding gold as a suitable standard measure for the determination of the *Nisab* .

With relation to the arguments of the contemprory theory of price; namely, the one suggested by Walras in his model about the general equilbrium, the choice of gold as a numeraire value for determination of the relative values of other goods, could also be justifiable although gold now might not be regarded as a stable commodity in the international markets. Gold, never the less, before the early seventies, was for many years the dominant single commodity supporting the international monetary system and the determination of exchange prices. Furthermore, the choice of gold in the case of the Sudan could also be justified by the fact that many people used to hold their wealth in the form of gold.

An alternative base to gold in theory which had been also considered in the early traditions of the *Prophet* (p.b.u.h) is silver, but it has never been regarded in modern practices or even encouraged in recent theoretical writings on the topic. One of the few recent *Muslim* thinkers who is in favour of the use of silver as a substitute for gold, is Dr. Ahmed Safiel-Din, a Sudanese pioneer in economics in Khartoum University. In an interview with him; in January 1989, he is of the view that the implementation of the *Zakah* , especially in low income countries like the Sudan will be better if it is linked with the value of silver rather than with that of gold. In his justification he relied on what has been narrated from the *Prophet's* traditions and justified the choice of silver as nearer to justice since many of the income groups who were not liable to the payment of the *Zakah* when it is linked with gold, would be covered if it was linked with silver.

For the Sudanese case, this arguement seems to be quite convincing since the use of silver as a numeraire for measuring the *Nisab* ; the minimum limits, will broaden the *Zakah* 's base. More people accordingly will automatically be admitted to the *Zakah*-payers' level and so they will be able to perform and enjoy one of the five *pillars of Islam.* The only disadvantage of silver at the moment, as a signal for prices, is that it is unstable, especially after the collapse of the silver market in the early 1980's.

The *Nisab* for this category, in terms of the market values of eighty five grams of gold; the standard measure now in use, is estimated in the year 1984 to be as equal to one thousand eight hundreds and sixty Sudanese Pounds. This amount increased to more than three thousands pounds in the year 1986 and further to about eleven thousands and four hunreds Sudanese Pounds as in accordance with the latest estimations in the year 1988. The value generally is linked to the domestic market's prices of gold upon which values of other goods intended for trade, including gold itself, as well as the bank-notes will be specified, and the levy will immediately take place at a rate of 2.5 percent whenever a person comes into the full possession of that value.

5.4.1 How the Zakah Base is Specified?

With reference to the determination of the *Zakah* base for articles of trade and liquid assets the following questions, however, are always asked. The first question is about how net profits accruing during the *Zakah's* year are to be taken into account for the *Nisab* ; the base of the *Zakah* , or not. The second question deals with the treatments of bad debts, and the last question is concerned with the suitable prices whereby goods are to be valued.

As regards the first question; whether profits accruing during the year are to be included in the base or not, the main views that have been considered in the discussion are those which belong to the major *Suni* schools of *Muslim* thinking; the *Maliki* , the *Shaffai* , the *Hanbuli* and the *Hanafi* school.

The *Hanafi* school; the school guided by the *Imam* Abu Hanifa, is of the view that profits are to be added to the *Zakah* base if the *Nisab* has already been obtained both at the beginning of the year and at its ending. This definition implies that only profits acruing during the year are to be considered if the *Nisab* is in existence when the *Zakah* was last paid. This view, to some extent, is similar to that suggested by the *Hanbali* school; the school led by the *Imam* Ahmed Ibn Hanbul. The focus here is also on the value of the *Nisab* in the beginning of the year. So if the *Nisab* is in existance at that time, then all profits generated during the year should be included in the base. Otherwise, if the *Nisab* itself has not been obtained, then they should be excluded from the base.

The *Maliki* school; the school founded by the *Imam* Malik, and the *Shaffai* school; the school related to the Imam Al-Shaffae, unlike the previous ones, have emphasized more on the *Nisab* at the ending of the year rather than at its start. As in accordance with the explanations of the *Maliki* school, all profits are regarded as stored values in any traded goods. Therefore, if the *Nisab* at the end of the year is obtained after the inclusion of profits, then that will be considered as both the necessary and sufficient conditions for satisfying the payment of the *Zakah* . The *Shaffae* school have also considered profits as intrinsic values of the traded goods and therefore should be counted as a part of the *Zakah* even if the *Nisab,* at the opening of the year, was not considered.

The legislation in the Sudan, so far, has much benefited from these two latest views. As it has been stated in the Act: "All articles for trade are to be subjected for the *Zakah* if the *Nisab* is realized after the completion of one year from their full possession"*. It can easily be noticed from this quotation that there has been no reference to the beginning of the year, but the focusing was only on the completion of the *Nisab* at the end of it. As far as a good taxation structure is concerned, one can fully agree with the views which call for the inclusion of profits in the *Zakah's* base since that will not contradict with the objective goals of the *Zakah* and can be justifiable on both equity and efficiency grounds of taxation. By containing profits in the *Zakah* base, additional capacities of the people will directly be considered and therefore the equity criterion will automatically be satisfied. Also, by focusing on a single time of the year i.e. at its end, the administration proceedures will be much easier since the limits for the *Zakah* will be checked one time in the year rather than two i.e both in the beginning and the end of the year. Much effort in that respect will be saved and so more efficiency will be gained.

The second problem connected with the determination of the *Zakah* for articles of trade is concerned with how bad debts are to be treated. In the Sudanese case bad debts, however, are to be excluded from the *Zakah* base. The legislation in that respect has followed to a great extent the opinion of Abu Ubaid which stated that, bad debts during the year should be excluded from the base and be treated seperately when they are returned. With regard to assured or fully expected debts, Abu Ubaid's view, however, is that they are to be included unless there is a certainty that they will not be fulfiled (Abu Ubaid, *op cit*). The uncertainty of the debts to be collected back, so far, has been overcome in the Sudanese case by treating all debts as bad ones and to be subjected to the *Zakah* only when they are obtained. From an accounting point of view, the advantage of the Sudanese approach is that it will avoid any possibility of double accounting of debts in the *Zakah* .

The third technical point which has been tackled in the legislation of the *Zakah* with regard to the articles of trade, is how goods are to be valued. Three opinions in that regard have generally been cosidered in theory. The first suggests the evaluation of goods is to be in terms of the market prices of goods at the time when the *Zakah* is due. The second, recommends the evaluation is to be based on the cost value of goods, and the third one is to be linked with the sale price of goods when they are actually been sold. The Sudanese case, never the less, has taken into account the first view ; i.e the valuation is to be in terms of the market prices of goods at the ending of the year. This view, so far, is a more suitable one than the others since it is straight forward and will not require more information than those about price indices which are available from most of the statistical sources.

Additional disadvantages of the other two measures are that they are more expensive and their implementation will need more information and so more man power. For example, if the valuation of goods is to be linked with cost values, then more knowledge about the costs of production such as input factors, insurance expenses, uncertainty and transportation will be all needed for the identifying of the real values of the goods. Alternatively, if the valuations of goods are based on actual selling prices in the future, then also information about the future prices will be needed in order to make a better forecast of the future prices.

From my own point of view it seems more justifiable if average prices through the whole year have been taken into account. The choice of the average price as a signal for the valuation is based on the following consideration: as prices will directly affect the amounts of profits or loss at the end of the financial year, and since profits according to the act are accountable in the *Zakah* base, then any error or a mistake in the valuation of the prices will automatically be considered in the final calculations.

5.4.2 The Assessment of the Zakah Base

The assessment of the *Zakah* base for articles for trade and monetary holdings in the Sudan, is very dependent on the flow of information which is either directly produced by individuals, as in the cases of small businesses, or indirectly obtained from the records and accounts as in the cases of major traders and of commercials companies which have got audited accounts and annual reports. Having all relevant information, the assessment then will follow the following steps:

(a) All liquid assets such as: cash in hand, cash and deposits in banks and articles intended for trade will all be added together at the end of the *Zakah* year.

(b) Net profits after the exemption of the basic needs by individuals should also be counted in the final calculations.

(c) All debts which have not been paid until the end of the year when the *Zakah* is due should also be considered seperately for the purposes of the *Zakah* .

Having got this information, the *Zakah* base then will be estimated as follows after considering the debtors' conditions:

$$\textbf{The } \textit{Zakah} \textbf{ base} = \textbf{(a)} + \textbf{(b)} - \textbf{(c)} \text{ ——} \textbf{(1)}$$

For the information about the *Zakah* base to be regularly assessed, checked and examined, all payers, especially those who do not present audited accounts, will be asked to fill in declaration forms and to return them to the Department. These forms contain almost all possible information about liquid assets, liabilities, net profits or loses, and also any transfered holdings as well as the inherited incomes and properties. Current expenditures and wages and salaries for companies and major businesses are generally excluded from the taxable limits. For individuals, the family size and the living standard are also been considered and therefore the basic needs should be exempted.

In the cases where the *Zakah* base is found to be different from the normal level, particularly for individuals who do not present audited accounts, the department of the *Zakah* then will be authorized to decide the likely figures by looking into the total transactions and applying accounting techniques. For example, the working capital of the specific business or trade can be estimated by dividing the total transactions by the rate of the capital turnover.

To protect a person from paying the *Zakah* more than once on a particular type of property a certificate should be kept with the payer so as to be presented to the *Zakah*'s inspectors. This method is the only feasible procedure at present to avoid double taxation. In the future, however, policies to increase compliance and revenue productivity should be strengthened through the introduction of techniques such as computers to help in information exchange and also to allow for self-checking strategy to reduce any tendancy towards evasion. Decentralized decisionmaking which is central to the *Zakah* policy can also be improved to increase efficiency through allowing local citizens to watch over local entities and develop their resources. One of the advantages of following a decentralized policy of *Zakah* in the Sudan is that it requires fewer personnel than in the case when the administration is carried through the centre. Also local decisionmakers can be more flexible and responsive to the needs and preference of their constituents than when the administration is carried through the centre.

It is worth noting here, that the determination of the *Zakah* base for this category of property in the Sudan has much benefited from the experience of the Kingdom of Saudi Arabia where the *Zakah* of such categories is intensively practiced (Salama, 1985). The only main difference between the two experiences is that: the calculations of the *Zakah* base in the Sudaese case has primarily focused on the ending of the year whereas in the Saudi Arabian case the emphasise has mainly been on the beginning of the year.

5.5 Zakah on Animal Wealth

Animal wealth or livestock, for the purposes of the *Zakah* , defines almost all domestic animals. These mainly cover the following groups of animals: camels, cattle, sheep and goats. These groups of animal will be liable for the *Zakah* if specific minimum limits are fully owned by *Muslims* for a full year. The *Nisab* or the minimum numbers that are liable for paying the *Zakah* differ from one category to another. As has been narrated from the *Prophet* (p.b.u.h.) and his followers, the minimum limits for camels are said to be five; for cattle thirty and for sheep or goats are forty (Abu Ubaid, 1981). The roots of these limits, however, lie deep in the past where the policy was fully in line with use.

One of the Sudan's greatest resources after crop agriculture is its animal wealth or livestock which has not been tapped yet for the purpose of *Zakah* although it has been well defined in the legislation. As it is stated in the Act of 1984 and the ones amended later, in 1985 and 1987, articles (39), (40) and (41), the limits and the rates for the three main groups of domestic animals namely, camels, cattle and sheep or goats, are as explained by Tables 5.3, 5.2 and 5.3 below.

As can be seen from Table 5.3, no *Zakah* is levied on less than five camels which is the exemption limit. The *Zakah* for a number of camels between 5 and 24 heads is levied in term of goats aged between one and two years; mainly females

Table 5.3: **The Zakah Limits and Rates for Camels**

Total Number	Rates of Zakah	Age in Years
less than 5	exemption	—
from 5 to 9	one goat	1 - 2 F or M
from 10 to 14	two goats	1 - 2 F or M
from 15 to 19	three goats	1 - 2 F or M
from 20 to 24	four goats	1 - 2 F or M
from 25 to 35	one camel	1 - 2 female
from 36 to 45	one camel	2 - 3 female
from 46 to 60	one camel	3 - 4 female
from 61 to 75	one camel	4 - 5 female
from 76 to 90	two camels	2 - 3 female
from 91 to 120	two camels	3 - 4 female

Source: the Zakah Act of 1985, Article (39)

Note: F for female and M for male.

ones. From 25 to 75 the rate of the *Zakah* takes the form of a female camel instead of goats, but with different ages. A female camel of age 1-2 it is known by *Muslims* as *Bint Mukhad* ; of age 2-3 it is known as *Bint Labun* ; of age 3-4 is known as *Hiqqah* and of age more than four it is known as *Jizua*. .It is worth noting that the *Zakah* for more than 120, will generally be calculated as follows: for any extra fifty, a female of age 3-4 is to be levied and for any extra forty or its multiple a female of age 2-3 is to be levied. One point which should be noticed about the age, both for goats and camels, is that it focuses on the most productive ages.

From a biological point of view the age of one year for goats is the minimum for reproduction, whereas for camels two years are the average age for reproduction.

Table 5.4: The Zakah Limits and Rates for Cattle

The Zakah limits	Rate of Zakah	Age Range
less than 30	exemption	—
from 30 to 39	one	1-2
from 40 to 59	one	2-3
from 60 to 69	two	1-2
from 70 to 79	two	1-2,2-3 *
from 80 to 89	two	2-3
from 90 to 99	three	1-2
from 100 to 119	three	1-2,2-3 **

Source: The Zakah Act of 1985, Article (40).

Note: (*) one from each age group; (**) one of age 1-2 and two of age 2-3.

Table 5.4 below, shows how the *Nisab* and rates for cattle are determined in the Sudanese case. In the determination of the *Nisab* for this group, no discrimination is made between older and younger cattle, only the aggregate number is considered. However, no *Zakah* is due if the total number is less than thirty and for more than thirty a rate of one cow will be applied until the total number reached 59, then for 60 and more a rate of two cow will be employed until the number amounted to 89. Within these ranges the difference the age levels should be considered in the specification of rates. In the literature of *Zakah*, a cow aged between one and two years is known as *Tabie*, and that aged between two and three is known as *Musin.* Generally these ages are the more productive ages, as from the biological science, one year is the minimum requirement for breeding and producing new generation for most animals. Furthermore, the ages are not only important for reproduction but also as factors for providing milk and dairy produce. When the total number of possession exceeds one hundred and twenty, the rate will be calculated as follows: for any extra thirty, a cow aged 1-2 is to be considered, and for any extra forty or its multiple a cow aged 2-3 is to be chosen as a suitable levy.

Table 5.5: The Zakah Limits and Rates on Goats and Sheep

Total Number	Rates of Zakah	Age level
less than 40	exemption	—
from 40 to 120	one	1-2
from 120 to 200	two	1-2
from 200 to 400	three	1-2
from 400 to 500	four	1-2

Source: The Zakah Act of 1985, Article (41).

For goats and sheep, the exemption limits and classes of intervals are relatively higher than in the previous cases of camels and cattle. As Table 5.5 below reveals, no *Zakah* is leviable for a number of heads less than forty, the minimum taxable limit. For a forty heads of goats or sheeps the rate starts with one, which is equivalent in relative terms to 2.5 percent. Beyond forty, the rate then will take a regressive form, i.e. increases at a decreasing rate, until the total number reached

500. After 500 a flat rate of one goat or sheep will generally be applied for any extra hundred head.

By comparing the rates and the *Nisab* of goats or sheep with that of camels, as Tables 5.3 and 5.5 show, it can easily be noticed that they share the same rate which is one goat in both cases. In general, this will mean that five camels, approximately, are eqivalent to forty heads of sheep or goats. That equality has been understood by some *Muslim* scholars to approximate the rate of *Zakah* for animals as equivalent to that of article for trade and financial holdings, since the rate of the minimum taxable limits could be be approximated to the rate of 2.5 percent (Mannan, 1985).

5.5.1 General Properties of Zakah on Animals

All domestic animals in the Sudan which belong to the three categories mentioned earlier are liable for the *Zakah* irrespective of whether they are pastured or fed animals. In that respect, the Sudanese act follows closely the interpretation of the *Maliki* school which has emphasized on the category of animals rather than on the way they are fed. According to the *Shafie's* and the *Hanafi's* interpretations, the rates discussed earlier should never be imposed if the animals in consideration pastured for less than half a year. In such a case, the animals will be treated as articles for trade with an annual rate of 2.5 percent of the *Zakatable* limits (Nail-Alautar, v.11, p140).

It is worth mentioning that, animals which are kept for productive uses such as ploughing, irrigation, transportation and carrying loads, are not liable for the *Zakah* on animal and do not come under the term, but their output will be treated as articles of trade and financial holdings. Generally no *Zakah* is levied on domestic animals which intended mainly for productive purposes such as horses although the *Hanafi's* school recommend that; particularly, if they are pastured for their offspring and not for riding or transportation.

5.6 Other Sources of Zakah

Other sources of the *Zakah* which have been considered by the Sudanese experience mainly include the following types of properties; any invested property for productive purposes and extractives, wages and salaries, minerals and treasure-troves and finally gold and silver and other similar forms of money. Some of these forms of properties are conventional and others are new and developed through recent practice. Each of these will in brief be considered seperately in the discussion.

5.6.1 Zakah on the Productive Uses of Wealth

This category is one of the new sources which have recently been developed in practice. It is now constituting one of the important sources which contribute to the total revenues of the *Zakah* . Its performance has immediately come after agricultural sources and articles for trade. These sources cover nearly all net incomes from rents; of commercial buildings or houses, net incomes from the sale of manufactures or of farm products such as milk, cheese and eggs as well as chickens. They also cover incomes that are generated through cinemas, theateres, hotels and other places of entertainment as well as incomes yielded by means of transport and private clinics and hospitals. In these cases the *Zakah* , however, is not levied on the property itself, but only on incomes generated from its use.

These sources, although they were not in practice in the earliest time, recently they have increasingly been encouraged and advocated by *Muslim* scholars (Al-Qaradawi, 1980). The argument for considering these sources is that they are analogous to profits in the case of articles for trade. Moreover, these sources are also liable for growth which is one of the necessary conditions for implementing the *Zakah* .

The value of the *Nisab* for this group is considered to be as equivalent to that of articles for trade and monetary holdings i.e the average market value of eighty five grams of gold, but with an annual rate equal to 5 percent on all incomes which are originating from a utilization of a land; e.g incomes from: rents, animal products and from hotels, and with the rate of 2.5 percent for incomes from other sources; these are incomes which share the characteristics of monetary holdings. The choice of the 5 percent rate here, however, is based on the assumption that land as an input factor for those incomes is analogous to land in the cases of agricultural produce and therefore they should be treated similarly. Also the costs of irrigation and similar expenses in the case of agricultural produce are also here considered as equivalent to maintenance and related expenses.

The determination of the *Nisab* for such categories is based mainly on the information provided directly by individuals through filling in a declaration form or indirectly from the audited accounts and records. Basic needs and necessities are usually exempted before the calculations of the *Nisab* which should annually take place. Exemptions also include wages and salaries paid by the possessors as well as the purchases of spare parts and depreciation in the cases of factories.

5.6.2 Zakah on Wages and Salaries

Wages and salaries are also important sources which have recently been developed and adopted for the *Zakah* . No doubt, they cannot be ignored as an adequate source of revenue for a modern state of today since they have increasingly become one of major sources of incomes for people. In the past they were not appeared to be of significant weight or value, and therefore had not seperately been considered in the earlier discussions.

The *Nisab* for this group, is calculated in relation to that of gold. The main items which have been included in the base are the basic annual income and the allowances as well as incentives. From those values, basic needs of a person will be deducted and then the remainder is going to be subject to the levy if it reaches the *Nisab* . As people usually get their wages and salaries on a monthly basis, the annual shares of individuals are also suggested to be broken down to a monthly levy. They are generally collected from the sources by the help of the employee at the rate of 2.5 percent of the net annual income, which satisfies the conditions of the *Zakah* .

5.6.3 Zakah on Minerals and Treasure-troves

The term "minerals", as has been considered by *Muslims* , signifies almost all worldly known types of metals which are directly exploited through physical human efforts. These generally include; copper, iron, lead, tin..etc as well as gold and silver. The *Nisab* for this group are the same as those for gold and it is immediately levied when the exploitation takes place at the rate of 2.5 percent. The completion of the year here, however, is not of an important factor but the realization of a metal itself is the only deterministic factor regarded in the calculations.

The term "treasure-troves", on the other hand, refers to the possession of hidden precious metals, jewellary or gems found underground without spending any human effort; physical or mental. The source, so far, was one of the important sources which were contributing to the total revenues. The rate of the *Zakah* for such a category is one fifth (20 percent) of the found wealth which satisfy the limits. No need for the completion of a whole year in this case.

One of the important characteristics of this source which signfies it from other sources, is that no significant effort is needed for its possession. Among the modern sources which have recently advocated by *Muslim* scholar to be classified with this group in that respect is oil wealth since it will not require tangible efforts to be exploited (Mannan, 1980). If these sources were now fully in use, it would solve many public needs and would vastly improve the welfare condition of the *Muslim Ummah* .

5.6.4 Zakah on Gold, Silver and Similar Forms of Money

The concept of this group, however, is a broad one and can be extended to cover all type of possessions which can be used as medium of exchange and have a market value. This covers also bank notes and bank accounts. The *Zakah* on such types of holdings is levied when a person comes into the possession of the equivalent value of the *Nisab* for gold with an annual rate of 2.5 percent. The specification of the *Nisab* here, is mainly based on the information directly provided by individuals through filling of a declaration form. For the purposes of compeleting the *Nisab*, homogenous items should be added together if it is not satisfied by a single item.

5.7 The Distributional Aspects of Zakah

5.7.1 General Concepts and Definitions

The success of the policy of the *Zakah* , so far, could not be measured without the effectiveness of the policy of distribution which is the integrable part for the policies of collection. In fact the success in distribution is the only significant indicator for examining the progress of the policy as whole in achieving its objective goals; namely, the equity in distribution of wealth and reducing of poverty. The distribution of the *Zakah* and its collection is a purely religious obligation which should be managed properly and expanded to certain specific heads. These heads, as has been defined in the words of the *Holy Quran* , are classified into eight categories of beneficiaries: the poor, the needy, the employee of the *Zakah* , those whose hearts have been reconciled, those in bondage, the debtors, in the cause of *Allah* and finally for the wayfarers (*Surah* 9, Verse 60). The definitions of these heads of expenditures in relation to the Sudanese practice are as follows:

- **The Poor:** A poor man is defined as the one who owns insufficient wealth to support him and his dependents for the whole year. This covers for instance, students who because of the shortages of financial sources are unable to continue on their studies.

- **The Needy:** This term signifies mainly people who have no possessions to assist them in obtaining their basic needs. Examples of people who have been classified under this category are: the disabled; the sick who seek medical care and the unemployed individuals who couldn't find opportunities to work.

- **The employees:** These are people appointed by the government to look after both the collection and the distribution of the *Zakah* . Such people are to be provided with sufficient levels of incomes to meet at least their necessary expenses.

- **Those whose hearts have been reconciled:** These generally are people who had not yet embraced *Islam* , or who had embraced *Islam* with ill-will. Such peoples should be assisted until they establish new connections in their new environment.

- **Those in debt:** The type of debt which may be reimbursed from the collected revenues must have been incurred in the public interest and not merely for the benefits of individuals.

- **The cause of Allah:** This concept is a broad one which includes almost all noble causes for which money may be needed; e.g. the propagation of faith and the preservation of peace and security for the *Muslim* community.

- **The wayfarers:** This defines peoples who by reason of their travels have been cut off from their homes and financial resources. They can be given assistance from the *Zakah* funds even though they may be rich in their home but they are unable to find someone to offer them loans. These include also the refugees and the homeless.

- **Those in bondage:** This signifies slaves who seek freedom; in *Arabic* this is known as the *Riqab* . However, this category although it has been defined by the Act, is no longer in existance today. Therefore, it has not been considered in the actual practice; i.e. the implemented distributional policy.

What is remarkable about these eight groups of beneficiaries mentioned here, is that they are covering approximately all areas of public interest to the *Muslims* as well as to the society as a whole. They indicate also the necessary limits to be ensured by an *Islamic State* ; namely, ensuring of a reasonable standard of living for those who are unable to take care of their needs and who require assistances.

5.7.2 General Rules Governing the Distribution of Zakah

As regards the disbursement of revenues from the *Zakah* in the Sudan, the major issues that have been considered by the policy makers were about: Firstly, who will be in charge of the distribution of the proceeds to the really deserving beneficiaries and secondly, on what basis those eligible to receive these proceeds could better be specified or assessed.

Conserning the first question; who will be responsible for the distributional aspects, two levels of administration have been regarded. One is by the local authorities and the other is by the centre. The local authorities are assumed to be responsible for the distribution of revenues regarding the following groups of beneficiaries: the poor, the needy, the wayfarers, the employee and the debtors. The preference of decentralized policy in regard to groups of beneficiaries is primarly related to the social contact between peoples and the easy access to information by local authorities and committees compared with the centre. Thus the searching cost for information will be very little or even nil. This will result in more gains in efficiency by saving much of the efforts and the expenses which might be spent if the search is carried out by the central authorities. Here no expenses will be needed to send teams of social researchers or to bear any of the costs of transportation as in the case when the distribution is directly under the control of the centre.

A further advantage of the distribution by local authorities beside the gains in efficiency by reducing the expenses of administration, is that social bonds and relations among the individuals in the local communities will further be strengthened and developed. The rich therefore will be made more responsible towards their poor and needy neighbours and so put the feeling of brotherhood on a firm footing. Moreover, the wealthy individuals will increasingly be stimulated to donate more generously so as to make substantial provision for the persons in hardship since they will be aware of the final distribution and the ultimate beneficiaries.

On the other hand, the second set of beneficiaries; those whose hearts have been reconciled, those in bondage and in the cause of *Allah* , are considered to be closer to the common iterests of the whole *Muslim* community and therefore their disbursement is assumed to be directly proven by the centre; the Department of *Zakah* . It must be pointed out here that the centre has also got the right to look after the distribution process regarding the other categories of beneficiaries mentioned earlier if the responsible people in a particular region failed to carry out the distributional policy properly. The centre, in all cases, will be responsible for the supervision and the following up of the flow of information between the centre and the different regions. This information is of high value in order to obtain good records and updated lists of the really deserving individuals. This, however, will help in the assessment of the policy and the developments of the distributional techniques in the future, hence achieving the objective goals of the system in securing a welfare state for the poor. It is worth noting here that in the circumstances where there is a surplus in revenues by some regions or there is an urgent need by others, the centre will have the right to direct and look after the transference of revenues between regions in question as are seen to be releavant.

With reference to the second question relating to the distributional policy; the measure on which the eligible persons could be assessed or specified, the general procedure now being used is mainly relying on examining the financial condition of a person and his standard of living. As it has been applied in many areas, the methods of screening the potential beneficiaries have followed the system of counting and attaching points to each of the eligible individuals. This system of evaluation is breifly summarised in Table 5.6 which follows below.

Table 5.6: Criteria of Evaluating the Zakah's Beneficiaries

Considered coditions	General Remark	Total Marks
1.Income level	no income	2
	less than Nisab	1
	more than Nisab	0
2.Age group	more than 70	2
	others	1
3.Health condition	disabled	1
	fit for work	0
4.Housing condition	bad	1
	reasonable	0
5.Social status	married	1
	orphan	1
	widowed	1
	divorced	1

Source: the 1985 annual report of Zakah.

Having the first condition been satisfied by an applicant, then he will directly be considered as eligible to receive the *Zakah* . Other conditions then will be considered to differentiate between the amounts which might be allocated to applicants and eligible persons. For instance an applicant whose age is more than seventy will be given more help than a one of an age less than seventy. Similarly married people who satisfy the first condition and have more children or dependents will be entitled to more help than those without children.

5.8 Additional Levies and Exemptions

Other levies beside the *Zakah* proposed by the law are the development tax and stamp duties. The development tax is leviable on any working capitals owned by individuals or private companies whether obtained from foreign sources or from domestic ones. The levy is considered to be at an annual rate of 10 percent of the total working capital where its value exceeds the eqivalent value of the *Nisab* for gold. Profits, however, are also included in the calculation of the tax base. The collection method of the tax is from the sources and with the guide of information presented in the audited accounts and published reports.

Unlike the development tax, stamp duties are not levied at specific rates or at a regular time. Their levy varies from each government department to another. they are generally levied when documents are issued and also on lenders as well as on contracts and the general sales. It is worth noting that the development tax may also be collected in the form of stamp duties when individuals or companies renew their licence for practising their activities.

Finally, and with regard to the exemption policies by the Act, only public wealth and state shareholdings qualify for exemption, in addition to the charity organizations and the general social projects. No other exemptions are allowed beside these unless they are approved by the central authorities.

Chapter VI

An Appraisal of Revenues and Findings from a Survey

6.1 Introductory Perspective

This chapter is intended to investigate emprically the fiscal performance of the system of *Zakah* and to examine the significance of the policy on the major economic variables. It is an integral part of the theoretical discussions in the previous chapter concerning the developments of the Sudanese case for *Zakah*. The chapter also attempts to estimate the potential revenue yield on the assumption that all available taxable capacities have been subjected to the policy as well as to associate with findings from a questionaire designed to examine the responses of the *Zakah*'s officals towards the implementation of the new system. A case-by-case analysis approach will be followed in examining the revenue yield and potential yield by the different sources, and it will cover the period from 1984/5 to 1986/7 (1405-1407H).

The structure of the chapter comprises three main parts: part one will deal with the analysis of the revenues by the major sources and the main regions. Each source will be examined and analysed separately in order to allow for better evaluation and development in future. Due to insufficiency of data to feed into building of sophisticated econometrics models to test for the goodness of fit and problems such as collinearity or heteroscedasticity, simple statistical measures and mathematical formulas will be used as necessary. These measures include percentage changes, measures of elasticity as well as tests of significance, e.g., the chi-square statistic and the analysis of variance, to test for the independence between frequencies and the sources of variations between variables as well as the regression models to examine degrees of associaton between variables. As the nature of the available data on *Zakah* is a nominal one, the analysis of variance techniques would be quite a suitable measure to make comparisons between the frequencies or to test for the variation between groups of data, e.g., between sources and regions or between outcomes of different years.

The second part of the analysis will be an effort to estimate the potential revenue yield when the major sources of revenues, namely agricultural produce, animal wealth and other taxable capacities and incomes are being fully utilised and exploited for that purpose. In estimating the potential revenue yield, each case or source of revenue will be considered separately to predict the possible yield if certain hypotheses and conditions are satisfied. These are mainly related to the satisfaction of the *Nisab* and how it could be specified or determined for each of the considered sources. As agriculture and animal husbandry are the major sources of income in the Sudan (almost 80 percent of the economically active population are either engaged in agricultural production or in animal husbandary) a particular emphasis is placed on the deduction of the potential revenue yield from those sources. Among the inference techniques which will be used in the forecast, are the expectation and probability theories. In that respect, the available sources of statistics on agricultural produce and animal wealth as well as on articles for trade will be fully adopted and developed to predict the possible revenue yield in the future.

The last part of the analysis is concerned with the interpretation of the information compiled from a survey conducted to investigate the responses of randomly selected samples from the policy makers and executive staff working in departments belong to the institution of *Zakah*. This part will deal mainly with the analysis of responses by the people in question as revealed by a questionnaire designed for examining the efficiency and effectiveness of administration in achieving the aims of the system. Out of a hundred forms of the questionnaire distributed to the employees, about seventy percent have responded positively by answering the questions and returning the forms back to the researcher.

In the analysis of the questionnaires, the main tool has been the statistical package for social science *SPSS*, implemented after consultation with the technical and specialized staff at the Computer Centre, *University of Durham*. Although the package provides a wide range of statistical measures, only those most relevant to our cases have been chosen. For example, full use has been made of frequency distribution to measure the relative importance of the answers to questions by the respondents. Analysis of variance, (ANOVA), and chi-square models are also often used to compare groups of responses or between a joint frequency distribution of cases.

6.2 The Assessment of Zakah's Proceeds (1984/5-1986/7)

The analysis which follows will be concerned with an evaluation of the overall growth of revenues from the *Zakah*, as released in the official publications, and also to inquire into the economic implications on the total revenues and the effect on other economic variables. In assessing the total revenue yield, each of the major sources and the main regions will be considered separately, using a case-by-case analysis approach. The analysis of revenues by sources attempts to provide a descriptive picture of the significance of each source of revenue and its contribution to the total yield, as well as to elaborate on the key sectors of the economy and their role in the success of the new policy.

On the other hand, the focusing on the regions is mainly intended to investigate the shares of different regions in the total yield and to check for administrative efficiency together with the effectiveness of the policies and procedures of collection adopted by the policy makers. The major sources covered here are: agricultural produce, articles for trade and financial holdings, invested wealth and finally wages and salaries. These are the only sources which at the time of the study were subjected to the levy policy. Other sources such as animal wealth, although they are very important sources, in terms of taxable capacities, have not yet been tapped for the *Zakah*'s purposes.

6.2.1 The Distribution of Revenues by main Sources and Regions

The analysis of the revenue performance by the *Zakah* during the period from 1984/5 to 1986/7, in the Sudan, will be considered in more detail when assessing the outcomes by both major sources and main regions. These outcomes have been consolidated in Tables 9.1, 9.2, 9.3, 9.4 and 9.5 which will follow in the ensuing discussions.

(a) Revenues from Agricultural produce

A major part of the country's programme of economic reform continued and still continues to be dominated by the contribution of agriculture, the largest sector in the national economy. Its importance is evident not only from its significant share in gross national product (about 35 percent of GDP) and contribution to government revenues (over 80 percent), but also in its provision of food for the whole population and incomes or employment opportunities for the labour force. To the recently implemented policy of the *Zakah*, the contribution of agriculture to the total generated revenues was also a very crucial one. The contribution as released in the annual regional reports for the period in consideration, was as revealed in Table 6.1 below:

Table 6.1: Zakah Proceeds from Agricultural Produce by Regions

(Values in 000's of Sudanese Pounds)

Regions	1984/85		1985/86		1986/87	
	Yield	%	Yield	%	Yield	%
The National Capital	2.68	0.007%	—	—	—	—
The Eastern Region	24,918.34	61.3%	32,175.51	69.2%	38,385.24	74.3%
The Central Region	15,025.23	37.0%	13,557.92	29.2%	12,874.36	24.9%
The Northern Region	93.22	0.2%	121.23	0.3%	390.09	0.7%
Kordofan Region	614.50	1.5%	582.98	1.3%	11.19	0.0%
Darfour Region	0.78	0.0%	—	—	4.10	0.0%
Total	40,654.74	100%	46,437.64	100%	51,664.98	100%

Source: Adapted from the Regional Reports on Zakah.

Note: No complete records were available about the national capital and Darfour.

As shown by the table above, the main contributors to the bulk of revenues were the eastern and the central regions. On average their combined contribution during the whole period amounted to 98 percent of the total revenue yield by the agricultural sector. The share of the eastern region alone amounted to 61.3 percent, 69.2 percent and 74.3 percent in the years 1984/5, 1985/6 and 1986/7 respectively, showing a continuous progress and developments in the total share. Out of the revenues collected by the eastern region, 94 percent were mainly collected from crops marketed at the city of *al-Gadarif*; one of the most important cities in the region. The collection by the central region ranks in immediately after the eastern region, but when the amounts collected are compared with the agricultural capacities of the region, they were quite very low. For example, the average contribution for the central region to the total agricultural production amounted to 57 percent, whereas for the eastern region it only amounted to 21 percent of the total.

The emphasis of the collection policy by the central region, unlike that by the eastern region, was primarily dependent on the collected revenues from cotton through the Gezira Scheme in the centre of the country and revenues from the Suki Agricultural Scheme as well as the contribution of El-Ginade Sugar Scheme. Other regions, such as Kordofan and Darfour, were not significant contributors to the total revenue yield (almost less than 1 percent on average), although their individual shares to the total agricultural in the early 1980s amounted to about 9 percent and 7 percent respectively (see Appendix C.3). The low shares of the national capital, Khartoum Region, and the northern region, were mainly due to the policy makers focusing less on horticultural production, namely vegetables and fruits, which are the main agricultural activities in those regions.

(b) Revenue Yield from Articles for trade

The commerce sector in the Sudan is also one of main contributors to gross national products (GDP). According to the Ministry of Finance estimates in 1988, the contribution of the commerce sector accounted for approximately 22 percent of the total values of the GDP. For the purposes of the *Zakah*, this sector has also been focused on by the policy makers. Table 6.2 below presents the actual revenue yield by articles for trade and financial holdings from 1984/5 to 1986/7 as revealed in the annual reports by the regions.

Table 6.2: Zakah Proceeds from Articles for Trade by Regions

(Values in 000's of Sudanese Pounds)

Regions	1984/85		1985/86		1986/87	
	Yield	%	Yield	%	Yield	%
The National Capital	1,677.76	76.0%	2,490.93	56.3%	1,887.39	43.0%
The Eastern Region	394.31	17.8%	465.57	10.5%	451.24	10.2%
The Central Region	9.92	0.5%	408.46	9.3%	964.99	22.0%
The Northern Region	59.94	2.7%	580.52	13.2%	762.62	17.3%
Kordofan Region	66.52	3.0%	85.78	1.9%	39.42	0.8%
Darfour Region	—	—	390.27	8.8%	317.10	7.2%
Total	2,208.44	100%	4,421.51	100%	4,422.76	100%

Source: Adapted from the Reports by the Regions.

Note: Records about Darfour were not complete.

The table above clearly indicates that the *Zakah* yield from article of trade and financial holdings was fairly low, particularly if it is compared with the yield from agricultural sources reviewed in Table 6.1 above. The largest contribution of this source in the total yield came from the national capital; the region of Khartoum, and the nearest urban centres in the surrounding regions. The share of the national capital in the revenues from that source, accounted on average for 58 percent, (76 percent in 1984/5, 56 percent in 1985/6 and 43 percent in 1986/7). Although in absolute terms the contribution of the national capital showed a relatively good progress, particularly in the year 1985/6, in relative terms it reflected a falling contribution. This was mainly due, on one hand, to the slow change in the yield of the revenues by the capital region and on the other hand to the increasing rate of growth in revenues by other regions. In particular, the drop in the share of the national capital in 1986/7 compared with that in 1984/5 was influenced mainly by the increases in the values of the *Nisab* from 1860 Sudanese Pounds in 1984 to 3600 Sudanese pounds in 1986. The result was a reduction in the *Zakah* base and a decline in the performance of the commerce sector in the total revenues.

Those regions which showed an impressive progress in the revenue yield were the central region and the northern region. For the central region, the relative contribution in the total increasingly improved from less than one percent in the year 1984/5 to 9 and 22 percent in the years 1985/6 and 1986/7 respectively. The northern region also showed an encouraging performance in its contribution to the collected revenues. Its contribution improved from 2.7 percent in 1984/5 to 13 and 17 percent in the succeeding years. The eastern region, however, was to a large degree very stable in its contribution, particularly if taken in absolute terms.

It is worth noting here that the collection of revenues from such a property source is basically reliant on information directly provided by a payer through filling in a declaration form. According to the existing rules, the payers are allowed to distribute privately up to 20 perecent of their *Zakahs*' due directly to the deserving people. The remainder then will be sent to the department of the *Zakah*, which will be responsible for the distributional aspects.

(c) Revenue Yield from Wages and Salaries

Wages and salaries are also among the sources which have been adopted for the purposes of the *Zakah* in the Sudan. At the moment, the contribution of this source to total revenues is quite good compared to other sources. Its contribution to the revenue yield was no less than that for article for trade and financial holdings. One of the advantages of this source over others is that it is easier to collect, either by the government or by private agents. The figures in Table 6.3 below, describe the development in the revenue yield during the period in question.

Table 6.3: Zakah Proceeds from Wages and Salaries by Regions

(Values in 000's of Sudanese Pounds)

	1984/85		1985/86		1986/87	
Regions	Yield	%	Yield	%	Yield	%
The National Capital	1,661.75	49.0%	2,941.71	65.6%	5,326.20	82.3%
The Eastern Region	187.57	5.5%	464.00	10.3%	357.53	5.5%
The Central Region	592.05	17.5%	702.74	15.7%	616.57	9.5%
The Northern Region	570.48	16.8%	182.37	4.1%	51.02	0.8%
Kordofan Region	291.77	8.6%	112.87	2.5%	36.34	0.0%
Darfour Region	86.13	2.6%	81.77	1.8%	83.77	1.3%
Total	3,389.74	100%	4,485.45	100%	6,471.43	100%

Source: Adapted from the Regional Reports.

As the table indicates, the highest contribution to the total was that of the share of the national capital. It exhibited a high share both in absolute and relative terms. In relative terms, its share rose from 49 percent to 65.6 percent, then further to 82 percent in the years 1984/85, 1985/86 and 1986/87 respectively. Other regions, however, have not shown stabilty in the total growth of revenues, but instead moved up and down in their trends. One of the difficulties which militates against stability in the revenues from this source is related to the determination of the *Nisab*; the minimum *Zakatable* limit, and the exact cost of living. Another difficulty connected with the specification of the *Nisab* for such a category is related to how allowances over the basic salaries are to be included. Furthermore, wages and salaries originating in private sectors were not being utilized as there was not sufficient administration to follow up the collection procedures.

(d) Revenue Yield from Invested Wealth and Rents

This source is one of the newly developed sources for the purposes of the *Zakah*. As defined in the legislation, this is composed mainly of revenues and incomes from rent, estate properties, farm products, e.g. milk, eggs and other dairy products, and incomes from the production of factories and industrial units. The collected revenues from this source were presented in Table 6.4 below:

As indicated in the table above, the revenues were again concentrated in the national capital region. The bulk of these revenues originated from incomes from selling or buying of lands as well as profits from capital gains. The collection of the revenues from this source by the other regions was limited to the urban areas and the big cities, mainly the capitals of the regions. From the table, it can easily be deduced that the revenues were not growing in a stable manner. This was due

Table 6.4: Zakah Proceeds from the Uses of Wealth by Regions

(Values in 000's of Sudanese Pounds)

Regions	1984/85		1985/86		1986/87	
	Yield	%	Yield	%	Yield	%
The National Capital	1,399.53	65.5%	570.44	33.0%	3,690.49	74.8%
The Eastern Region	130.68	6.1%	263.95	15.2%	528.49	10.7%
The Central Region	406.36	19.0%	399.53	23.1%	301.40	6.1%
The Northern Region	47.56	2.2%	292.25	16.9%	228.44	4.6%
Kordofan Region	53.30	2.5%	67.69	3.9%	86.32	1.8%
Darfour Region	100.72	4.7%	136.83	7.9%	99.70	2.0%
Total	2,138.15	100%	1,730.69	100%	4,934.84	100%

Source: Adapted from the Regional Reports on *Zakah.*

mainly to the nature of the source and also to the conditions of the markets which govern, for instance, the supply of industrial goods and dairy products as well as the conditions which influnce the demand and supply for estate properties. The administrative difficulties of keeping records of wealth and its transfer as well as assessing the changes in the taxable limits were the main factors responsible for the drop in the share of this source in 1985/6, particularly in the national capital.

(e) The Consolidated Revenues by Main Regions

By analysing revenues by regions in this section, an attempt has been made to explore the direct contribution by various regions to the bulk of revenues and to focus attention on the effectiveness of methods and procedures adopted there as well as to check for the responses of the different regions to the implementation of the policy. Table 6.5 below reports the contributions of the main regions in the country in the total proceeds as from 1984 to 1987.

Table 6.5: Total Revenue Yield by the Regions

(Values in 000's of Sudanese Pounds)

Regions	1984/85		1985/86		1986/87	
	Yield	%	Yield	%	Yield	%
The National Capital	4,741.72	9.8%	6,003.07	10.5%	10,904.09	16.1%
The Eastern Region	25,630.89	53.0%	33,369.03	58.4%	39,722.49	58.9%
The Central Region	16,033.55	33.1%	15,068.65	26.4%	14,757.32	21.9%
The Northern Region	771.20	1.6%	1,176.37	2.1%	1,432.17	2.1%
Kordofan Region	1,026.08	2.1%	849.31	1.5%	173.27	0.3%
Darfour Region	187.63	0.4%	608.87	1.1%	504.66	0.7%
Total	48,391.07	100%	57,075.29	100%	67,494.01	100%

Sources: Adapted from Tables 6.1, 6.2, 6.3 and 6.4.

It will be seen from Table 6.5 above that the eastern and the central regions were responsible for almost all the growth in the total revenue. The contribution by the eastern region, both in absolute and relative terms, exhibited a continuous increase. The percentage share in the total accounted for about 53 percent, 58 percent and 59 percent in the years 1984/5, 1985/6 and 1986/7 respectively; i.e more than a half of the revenue yield was originating in that region. These revenues were almost entirely dependent upon the collection through the crops markets and the postive responses of the market's officials; namely the crops' market at the city of Gadarif, in the heart of the mechanized farms area, which alone contributed more than 80 percent of the regions' total revenues (see reports by the regions, 1988).

On the other hand, the average revenue yield by the central region did not exceed 26 percent of the total revenues although its average share in the total agricultural production during the early eighties did not fall below 57 percent of the total (see Appendices). The revenues from the central region were due mainly to the subscriptions from cotton grown in the Gazira Scheme (the largest agricultural scheme in the country) and the Suki Scheme, sugar cane by the Ginade Sugar Scheme and also the contribution of *Durah* (the staple food crop) collected from farmers by local committees. For the contribution of the national capital, the bulk of revenues were from articles for trade, invested properties and wages and salaries. The real contribution increased from about 10 percent in 1984/5 to 16 percent in 1986/7. The dominant method of collection there was through a declaration form procedure which normally carried out by the *Zakah* department. Other regions, however, were suffering from high rates of under capacity utilization. In many cases the actual utilization of the taxable capacity was not higher than 2 percent of the total (see Table 6.5).

(f) Consolidated Revenues by Major Sources

In this section, it is proposed to examine the actual contributions of the key sectors which have significantly contributed to the total revenues and to investigate possible policies to improve the revenue yield by the various sources in the total revenues. The sectoral distribution of revenues for the selected period of the study,

Table 6.6: The Total Yield from Zakah by Major Sources

(Values in 000's of Sudanese Pounds)

Sectors	1984/85		1985/86		1986/87	
	Yield	%	Yield	%	Yield	%
Agricultural Sources	40,654.74	84.0%	46,437.64	81.4%	51,664.98	76.5%
Articles for Trade	2,208.44	4.6%	4,421.51	7.7%	4,422.76	6.6%
Wages and Salaries	3,389.74	7.0%	4,485.45	7.9%	6,471.43	9.6%
Utilized Properties	2,138.15	4.4%	1,730.69	3.0%	4,934.84	7.3%
Total	48,391.07	100%	57,075.29	100%	67,494.01	100%

Sources: Adapted from Tables 6.1, 6.2, 6.3 and 6.4.

both in absolute and relative terms, is shown in Table 6.6 below:

As will be seen from the table, the agricultural sector continued to be the dominant sector in the total revenues. By far the most significant share was from agricultural produce which accounted in the total for about 84 percent in 1984/5, 81 percent in 1985/6 and 77 percent in 1986/7. This high reliance on agricultural produce, so far, highlights the particular importance of the traditional subsistence sector in the success of the policy. This of course also reflects the comparative advantage of the role of the *Zakah* in attracting and mobilizing the traditional sources of revenue which had not previously been considered worth being. Although other sources such as articles for trade, invested or utilized properties and wages and salaries, show a fairly steady growth in the total revenues, particularly if compared with the shares of the commerce and industrial sectors in the GDP (about

30 percent) they are still far behind in terms of taxable capacity. These originate mainly in the urban sector, namely the capital cities of the regions with most emphasis on Khartoum; the national capital. The largest contribution of agricultural produce, however, does not mean that agricultural sector is over taxed when compared with its actual contribution to the GDP (see Table 2.1), but it reflects the administrative feasibility of agricultural schemes and the ease of collection as in the case of crops' markets procedure.

6.2.2 An Overall Evaluation of Revenues

In this section, we have tried to employ some statistical measures to examine for the actual performance of revenues for the period in question. The main statistical tools which have been adopted here include the analysis of variance statistical test (ANOVA), to examine the variation in the revenue yield between the various sources and between main regions as well as between years. In addition, simple computation such as frequencies distribution and percentage changes to assess the general performance of revenues, will employed as seen to appropriate. A comparison of the revenue with some important economic variables will also be considered in order to examine the significance of the policy. Each of these tests will be highlighted in the succeeding discussions.

(a) Evaluation of Revenues Using the Analysis of Variance Test

This test is conducted mainly to examine for the distribution of the annual average yields between regions and sources and to check if there is any significant variation between them. This statistical test was chosen as the most suitable one to fit the data we have. As argued by Scheffee (1959) and Bradly (1981), the analysis of variance statistical test or the Fisher Test, is a quite relevant test particularly for a classified population of more than two groups. As we have three groups of populations (six regions, four sectors and three periods) the test is the most suitable one to fit into the given data. Of course, if we have only two groups and a suitable sample size, a t-test or a z-test may be more relevant (Whitley, 1983). This test will be applied to the results in Tables 6.5 and 6.6 on the assumption that there is no variation on average between the sources, the regions or the years. By using the *SPSS* statistical package, the following results shown in Tables 6.7 and 6.8 below, have been obtained:

Table 6.7: The Analysis of Variance for Revenues by Regions

(1984/85-1986/87)

Source of variations	degree of freedom	sum of square	mean sum of square	F value
Variation due to years	2	30.79	15.40	1.88
Variation due to regions	5	2450.14	490.03	59.83
Residual	10	81.85	8.19	
Total	17	2562.78		

Source: Computed from Table 6.5 .

The results in the table above show that the F-Statistics' values for the variations in the revenue yield between years is 1.88, with 2 and 10 degrees of freedom, and for the variation in revenues between regions it is 59.83 with 5 and 10 degrees of freedom. By comparing the values of (F) in the table with the standardized values in statistical tables using 1 and 5 percent levels of significance, it is found that the difference due to the variation between years was not significant at both levels. On the other hand, the variation in the revenue yield due to regions is found to be significant at both levels; 1 and 5 percent levels of significance. This means there is at least one region which was responsible for the variation in the revenues obtained by the regions. This result, however, could also be supported by the fact that the Eastern Region was responsible on average for more than 55 percent of the total revenues realized from the practice of the *Zakah.*

Table 6.8: The Analysis of Variance for Revenue by Main Sectors

(1984/85-1986/87)

Source of variations	degree of freedom	sum of square	mean sum of square	F value
Variation due to years	2	46.20	23.10	5.69
Variation due to sources	3	4069.53	1356.51	334.12
Residual	6	24.34	4.06	
Total	11	4140.07		

Source: Computed from Table 6.6 .

The results in Table 6.8, again show the absence of any significant variation in the revenue yield between the years, particularly at one percent level of significance where F-Statistics with 2 and 6 degrees of freedom from the value in the standardized tables of F-distribution is found to be 10.9; i.e. greater than the calculated value of F, with 2 and 6 degrees of freedom, which is equal to 5.69. When a 5 percent level of significance is used instead of the one percent level, the test shows a significant difference between the revenues for the different years. This is directly related to the improvement in the collected revenues in the year 1986/7 from both agricultural sources and wages. But generally, the variation was not very much as recommended by the test at 1 percent level of significance.

With regard to the sources of variation between the revenues from the various sectors, the value of F-Statistics indicates a significant difference between the revenue yield by the major sectors. The difference is found to be very significant both at the 5 percent level of significance and at the 1 percent level of significance. The value of F obtained at one percent level is equal to 9.78, which is far less than the computed F value (334.12). The result, however, reflects the dominance of the traditional agricultural sector in the total revenue yield. During the period the study, the contribution of the traditional sector did not fall below 77 percent of the total revenues (see Table 6.6). It must be pointed out here that not all agricultural capacities have yet been utilized. For example, most of the agricultural production originating in the western regions (Kordofan and Darfour) has not yet been tapped. Also in the central region, the sugar cane production by the Kinana Scheme, the biggest scheme for sugar production, and by the Sinar Scheme, have not appeared in the region's reports (The central region Report on *Zakah*, 1988).

(b) Comparative Advantages of the Revenue Yield

In this section , a comparative study of the overall performance of the levels of revenues during the period in the question will be examined against the following economic variables during that period: gross national product (GDP), total tax revenues (TTR), and direct tax revenues (DTR). As there is not sufficient data on the revenue yield from the *Zakah* to test the significance of the revenue yield to variation in those variables, simple computations such as percentage changes and elasticity measures will be employed. The results from the computations are shown in Tables 6.9 and 6.10 below:

As is evident from Table 6.9, the absolute yield revealed a continuous increase but taken as a percentage of the gross national product (GDP) or of the revenue yield from taxes; direct and indirect, a downward trend is observed. In relation to GDP, the relative weight of the revenue yield showed a decreasing rate of change with GDP. From a rate of 0.37 percent in 1984/85, the rate continued to decrease to 0.28 percent and 0.23 percent in the years 1985/86 and 1986/87 respectively. Similarly, the trend with respect to the total tax revenues also decreased continiously (see column 6 in the table). By comparing the actual revenue yield from *Zakah* with that from direct taxes, it shows a relatively favourable contribution, but the changes between the successive years were not increasingly developed. As regards the the elasticity of *Zakah* with respect to both the GDP and tax revenues, the estimates in Table 6.10 reveal a considerable rates of progress especially with reference to the total tax revenues. With respect to the GDP, however, the elasticity of *Zakah* was not relatively high but it showed some development (see Table 6.10).

However, although there is not sufficient statistical evidence to argue convincingly whether the actual growth in the GDP and *Zakah* revenues have been faster or not, the main causal factors are likely to be related to the ways the prices of agricultural produce are determined and also to the valuations of *Zakah* collected in kind. Price policy, particularly for staple crops such as durah and millet, are

Table 6.9: The Contribution of the Revenue Yield to the Economy

(Values in millions of Sudanese Pounds)

Years	(1) Zakah Y.	(2) GDP	(3) Tax Y.	(4) D.T.Y.	(5)= (1)/(2)%	(6)= (1)/(3)%	(7)= (1)/(4)%
1984/85	48.4	12,893	1270.0	302.0	0.37%	3.81%	16.02%
1985/86	57.1	20,676	1679.0	319.0	0.28%	3.40%	17.90%
1986/87	67.5	29,936	1768.0	460.0	0.23%	3.82%	14.67%

Sources: Columns 2, 3 and 4 are obtained from the Economic Survey Report 1987/8, and column 1 is taken from the tables above. **Note:** Y refers to yield and D.T. to direct taxes.

Table 6.10: The Elasticity of the Revenue Yield from Zakah

(Values in millions of Sudanese Pounds)

Years	(1) Zakah Yield	(2) rate of change	(3) GDP	(4) rate of change	(5) TTR	(6) rate of change	(7)= (2)/(4)	8= (2)/(6)
1984/85	48.4	–	12893	–	1270	–	–	–
1985/86	57.1	17.9%	20676	60.4%	1679	32.2%	0.3	0.6
1986/87	67.5	18.2%	29936	44.8%	1768	5.3%	0.4	3.4

Sources: Columns 3 and 5 are obtained from the Economic Survey Report 1987/8, and column 1 is taken from the tables above. **Note:** TTR refers to total tax revenues; column 7 shows the elasticity of Zakah with respect to GDP and column 8 shows its elasticity with respect to the tax revenues.

in most cases not bounded by any systematic rules or governed by market forces. Another interpretation for the decreasing trend of revenues may be due to the nature of the agricultural production; the major source of revenue, which could be strongly influenced by natural factors, e.g. weather conditions or even by the precariousness of harvests.

To give a good appraisal of the overall performance of the revenue yield, it would, perhaps, be instructive to compare these results with those found from a similar study on the *Zakah* in Saudi Arabia by Salama for the period from 1961/2 to 1976/7 (Salama, 1982). As indicated by that study, the percentage yield with respect to GDP never exceeded 0.01 percent during the period of that study. If that figure is compared with the results in Table 6.9 column (3), the Sudanese performance would be far better, almost more than three times as great as in the the Saudi Arabian case. The results, so far, provide some evidence of the comparative advantages of the experience over countries in comparable stages of growth in the policy. This also seems to indicate the relative importance of agriculture in contributing significantly to the total revenues from a *Zakah* system.

Having outlined the present situation and revenue achievements, we can establish that although the Sudan has achieved considerable results, particularly from agricultural produce, these are far from being sufficient to substitute for all taxes, especially at the moment when the practice is still at its early stages. It is, however, extremely difficult to appraise comprehensively the actual progress made in the collection of revenues since proper, comparable statistical evidence is in most cases not available.

Fig. 6.1: The Revenue Yield by Regions 1984/5–86/7

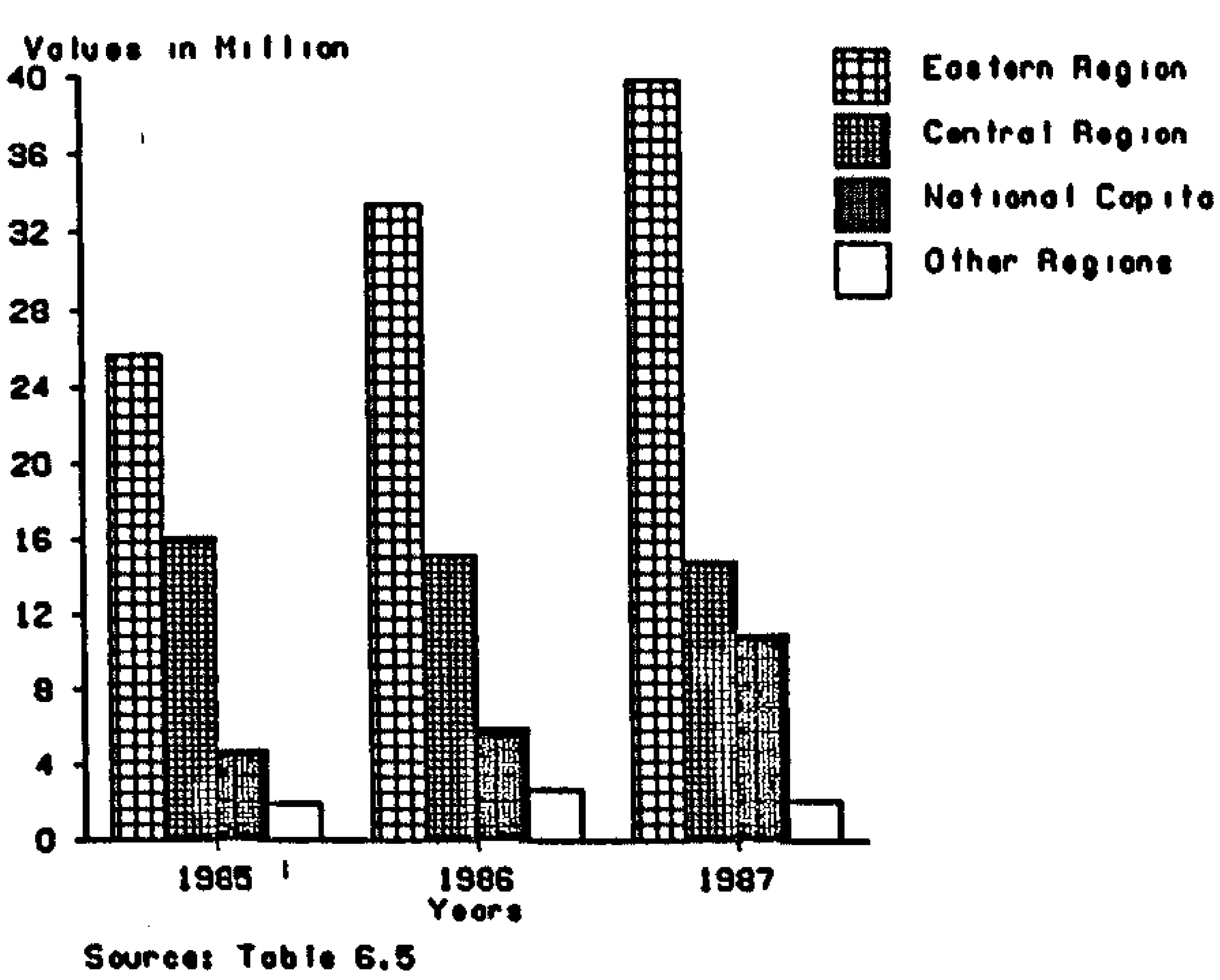
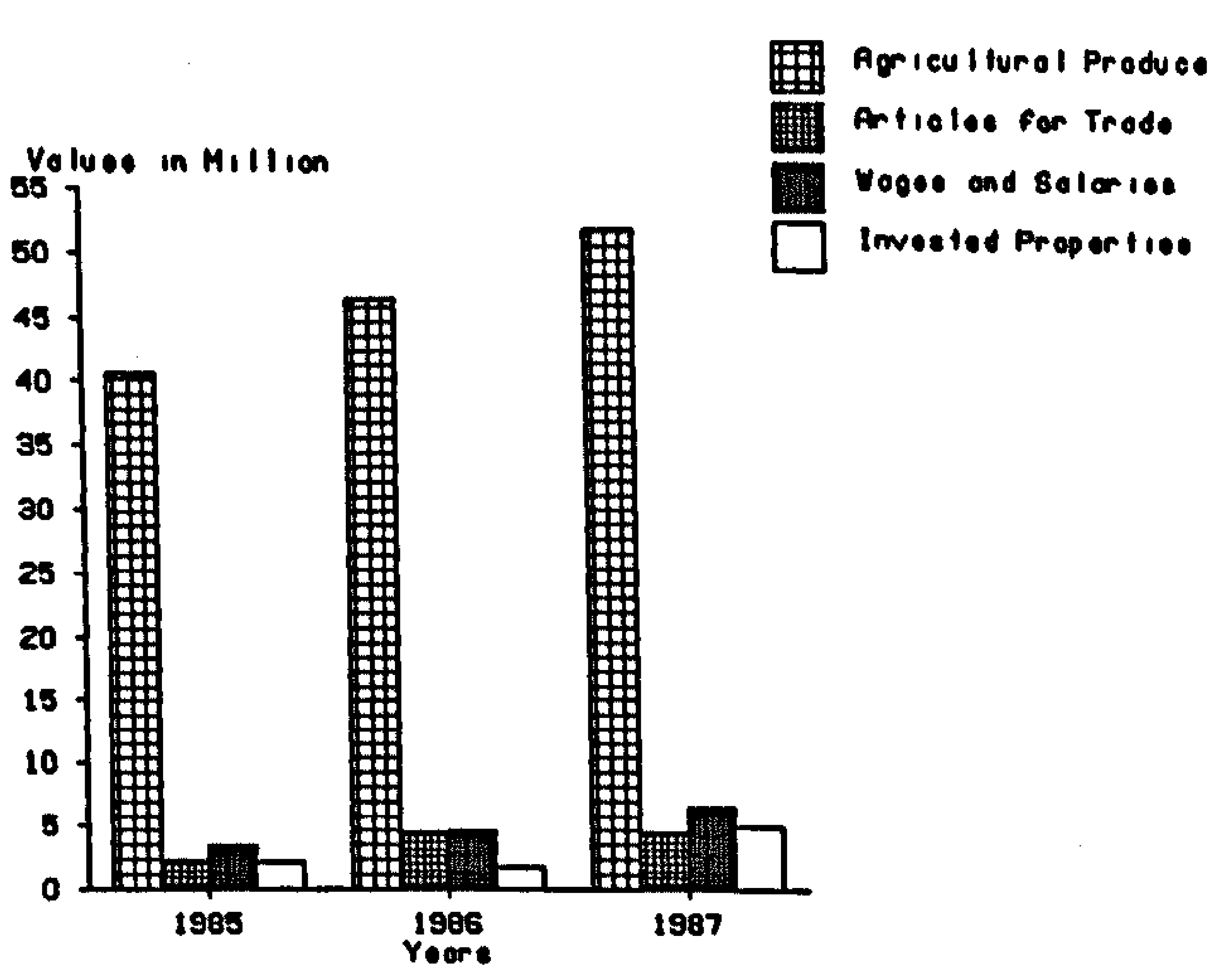


Fig. 6.2: The Revenue Yield by Sources 1984/5–86/7



6.3 The Potential Revenue Yield by Strategic Sources

In this section, an estimation is attempted of the potential revenue yield which could be obtained from the most liable sources, on the assumption that the policy is implemented in full to all taxable capacities. These estimations, however, can only be regarded as a rough measurement to give a signal of the possible revenue yield in the future and the significant role it might play in forming a comprehensive taxation policy which covers both financial holdings and incomes in kind.

As there is not sufficient statistical data about all potential sources, the estimations rely on the available official data collected from: (a) the Economic Survey Reports by the Ministry of Finance; (b) Foriegn Trade Statistics by the Bank of the Sudan; (c) the latest report on taxation by the Department of Taxation and (d) Annual Agricultural Statistics by the Ministry of Agriculture and Natural Resources. In addition miscellaneous publications have been consulted and researches have also been conducted as relevant to the study. In the analysis which follows a particular emphasis is placed on forecasting the minimum potential revenue yield from agricultural produce, animal wealth and incomes sources, namely business and trading activities, as well as the actually collected revenues from wages and salaries.

The choice of these sources, is due mainly the relative availabilty of data concerning the determination of the *Nisab* for those sources and also to their strategic importance to the national economy. For example, the contribution of agriculture to GDP accounted on average for 34 percent (this includes as well animal husbandry's contribution), and that of the commerce sector for about 20 percent on average. Other important sources such as industrial produce, farm produce, mines and minerals and others, although they have highly been in the theoretical discussions, as we have seen in the early chapters are not included. This was because there was inadequate information to assist in forming a suitable prediction about the *Zakah* base and the value of the *Nisab*.

6.3.1 The Potential Yield from Agricultural Produce

Agriculture, being the most important sector in the economy, more emphasis will be placed on specifying and predicting the minimum possible yield from the major produce for the period 1984/5-1986/7 (1405H-1407H). In order to carry out comprehensive research into the various agricultural sources, we shall classify the total agricultural produce into cash crops and food crops and then assess each group separately. The evaluation of the cash crops will be estimated using the export prices revealed in the foreign trade reports by the Bank of the Sudan. The computed values of the major exports (cotton, groundnuts, sesame and gum-arabic) will be shown in Table 6.11. On the other hand, the valuation of the main food crops will be computed using the domestic market prices. These cover *durah*, (the staple food crop for the majority of people) *millet*, wheat and sugar cane.

Taking into account the relatively large sizes of farms in the Sudan (the minimum size of a farm in the Sudan in many regions is not less than five *feddans*) it is quite possible for a farmer to obtain the *Nisab* (the equivalent value of about 653 Kilograms) unless there are bad weather conditions. As suggested by a similar study on the topic by Prof. Awad (1986), 75 percent on average of the total cultivated lands in the Sudan satisfied the *Nisab*. Considering these facts together with average yields per feddan for most produce in question, the potential revenue yield, for both cash and food crops, is estimated subject to the following assumptions:

(a) Assumptions Related to Yields by Cash Crops

- For cotton it is assumed:

(i) 90 percent of the total production to satisfy the *Nisab*. The reason for assuming this high ratio is directly related to high average yield per feddan for cotton, equal to 550 Kg per *feddan*. This implies that the *Nisab* (the equivalent value of 653 kg.) could be obtained from the yield of a piece of land of one and a half *feddan* or more, which is normally less than average size (5 *feddans*).

(ii) Since cotton is largely produced in irrigated schemes, we assume a 5 percent rate to be imposed.

- For groundnuts it is assumed:

(i) 65 percent of the total production to attain the *Nisab*. The choice of this ratio is based on the average yield per *feddan* which was 270 Kg.

(ii) As groundnuts are produced in both rainfed lands and irrigated schemes, we assume a rate of 7.5 percent to be imposed, i.e. an average rate of 5 and 10 percent rates.

- For sesame it is assumed:

(i) 70 percent of the produce to meet the target of the *Zakah*. Although the average annual yield for sesame is not found to be high (about 90 Kg per *feddan*), the large size of farms is the only reason for suggesting that ratio.

(ii) We assume also a rate of 7.5 percent to be applied as an approximation to 5 and 10 percent rates.

Table 6.11: Potential Revenue Yield by Major Cash Crops
(1984/5 - 1986/87;(1405-1407H))

Items	Cotton			Ground-nuts			Sesame			Gum Arabic		
	84/85	85/86	86/87	84/85	85/86	86/87	84/85	85/86	86/87	84/85	85/86	86/87
Total production	611	406	538	345	246	339	113	114	194	31	20	29
The Zakah Base	550	365	484	224	160	220	80	80	135	18.6	12	17.4
Expected Rate of Zakah	5%	5%	5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	10%	10%	10%
Expected Zakah Yield	27.5	18.3	24.2	16.8	12.0	16.5	6.0	6.0	10.1	1.86	1.2	1.74
Price/metric ton	418.7	707.0	438.0	1189.0	1736.8	2272.7	1189.3	5588.5	2031.0	1669.2	2408.7	7418.8
Value of Revenue Yield	11,514	12,938	10,600	19,975	20,841	37,499	7,136	33,531	20,513	3,105	2,890	12,909

Source: Agriculture statistics, Ministry of Finance (see Appendices).
Note (1): Statistics about the southern regions were not included.
Note (2): All values in 000's of Sudanese Pounds.
Note (3): Prices are obtained from foreign trade statistics, Bank of the Sudan.

- **For gum-arabic it is assumed:**

(i) 60 percent of the total produce to satisfy the *Nisab.*

(ii) As most of the gum trees of gum are naturally irrigated, we suggest a 10 percent rate of levy to be imposed.

Given all these assumptions, the potential revenue yield is then computed to be as presented in Table 6.11.

(b) Assumptions Related to Yields by Food Crops

These crops cover mainly *durah* (the staple food crop), *millet*, wheat and sugar cane. *Durah* is largely produced in both modern irrigated schemes and in rainfed areas. *Millet*, unlike *durah*, is highly cultivated in the rainfed lands with more emphasis in the western parts of the country. On the other hand, the production of sugar cane and wheat is entirely limited to the artificially irrigated lands. By bearing these facts in mind, we have made the following assumptions in order to predict the potential revenues from each of them:

- **For *durah* it is assumed:**

(i) 75 percent of the total production to satisfy the *Nisab* which estimated to be equal to the amount or the value of 653 Kg (this is equivalent to approximately eight sacks of *durah* in terms of the domestic measure system).

(ii) As *durah* is produced in both rainfed and irrigated lands, we assume a rate of 7.5 percent to be applied.

Table 6.12: Potential Revenue Yield by Main Food Crops
(1984/5 - 1986/87;(1405-1407H))

Items	Durah			Millet			Wheat			Sugar Cane		
	84/85	85/86	86/87	84/85	85/86	86/87	84/85	85/86	86/87	84/85	85/86	86/87
Total production	1010	3324	3077	159	400	270	79	199	157	498	452	483
The Zakah Base	757.5	2493	2307.7	55.7	140	94.5	60	150	118	423	384	410
The Zakah Rate	7.5%	7.5%	7.5%	10%	10%	10%	5%	5%	5%	5%	5%	5%
Expected Zakah Yield	56.8	186.9	173.1	5.6	14.0	9.5	3.0	7.5	5.9	21.1	19.2	20.5
Price/metric ton	1100	390	500	1100	390	500	780	980	1370	420	420	420
Value of Revenue Yield	62,480	72,891	86,550	6,160	5,460	4,750	2,340	7,350	8,083	8,862	8,064	8,610

Source: The agricultural statistics reports.
Note (1): Production in 000's metric tons, prices and revenues in 000's of Sudanese pounds.
Note (2): Prices of agricultural crops are based on the domestic crops' markets prices; prices of sugar are obtained from the Ministry of Trade.
Note (3): The southern regions' statistics were not included.

(iii) For measuring the values, we considered the domestic prices of *durah* at the crop market in the city of the Gadarif to be taken as a basis for the computations.

- For *millet* it is assumed:

(i) 35 percent of the total produce satisfied the *Nisab*. This relatively low percentage is mainly due to the low yield per *feddan*. It is found during the period of the study that the average yield per *feddan* for *millet* did not exceed 80 Kg.

(ii) As more than 80 percent of the total production of *millet* is produced in rainfed lands, a high rate of 10 percent is assumed to be applied.

(iii) For the valuation, previous prices of durah are considered to be the same for *millet*. The reason for assuming this is based on the fact that they share similar characteristics and therefore any increase of prices above those for *durah* will serve to raise the demand for *durah*.

- For wheat we assumed:

(i) 75 percent of the total produce reached the *Nisab*.

(ii) As almost 100 percent of wheat production is artficially irrigated, a 5 percent rate has been used in the computation of revenues.

(iii) We used domestic prices per ton to determine the approximate revenue yield from wheat production.

- For sugar cane the assumptions were:

(i) 85 percent of the total production to attain the *Nisab*. This ratio, however, is not very high if it is compared with farm sizes and yields in the sugar cane schemes.

(ii) As all sugar cane is produced under irrigated schemes, a rate of 5 percent will apply in the specifiction of yields.

(iii) For estimating the values, the available prices in 1985/86 have been applied to give an indicator of the potential revenues.

By applying these assumptions to the obtained production data for the whole period, expected revenues have been computed using simple calculations (see a summary of these results in Table 6.12).

6.3.2 The Potential Revenue Yield from Animal Wealth

Sudan is one of the richest countries in Africa in terms of its animal wealth. It has on average not less than 25 million head of goats and sheep, 20 million head of cattle and 3 million head of camels. This huge amount of animal ownership, however, has not fully been utililized economically, although there are not less than 15 percent of the total population fully engaged in the livestock economy or at least with a vested interest in herd. Unlike many writers who have stressed the social role of the traditional pastoral economies, we will try in this section of the study to investigate the economic aspects of animal ownership and their expected contribution to the national economy in general and to the revenue yield by the *Zakah* in particular. A summary of the possible contribution of this source to the revenues which could be generated through the *Zakah* policy is shown in Table 6.13 below.

In estimating the *Nisab* (the taxable limits) for this category of property, we relied much on the rough statistical data about the distribution of animal wealth between the various regions, provided by the Ministry of Agriculture, and also on relevant studies on the subject by Dr. Awad (1985) and by Abdel-Gadir (1988). Making use of all these sources, the following assumptions about each group of animals in question have been made in order to approximate the potential yields:

- **For Camels, we assumed:**

(i) The *Zakah* rate is to be calculated in terms of goats on the assumption that any extra five camels above the *Nisab* (the minimum taxable limits) will be liable to a levy of one goat (see Table 6.3). This means, if the total number of possession is equal to [n] camels, then the total yield could be approximated as in the following formula:

Total Yield (goats) = Total Number of Camels / 5

(ii) Regarding the official figures for the distribution of camels, estimated by the department of statistics in the Ministry of Agriculture, we assumed that on average 70 percent of camel ownership in the Sudan could conform with the conditions of the *Nisab*. This ratio is highly influenced by the large numbers of camels in the western regions, namely in Kordofan, and in Kassela region in the eastern part of the Sudan.

(iii) For the valuation, we considered rough estimates of average prices for goats and sheep in the various regional markets during the period under consideration.

- **For Cattle, we assumed:**

(i) The rate of *Zakah* for any number [n] of possession exceeding the *Nisab* (i.e.

Table 6.13: Potential Revenue Yield from Animal Wealth
(1984/5 - 1986/87;(1405-1407H))

Items	Camels			Cattle			Sheep or Goats		
	84/85	85/86	86/87	84/85	85/86	86/87	84/85	85/86	86/87
Total Numbers	2,750	2,713	2,700	12,837	13,640	13,708	19,891	20,131	20,295
% of Zakatable Numbers	70%	70%	70%	60%	60%	60%	40%	40%	40%
The Zakah	385	380	378	225	239	240	98	100	100
Average Price/Item	140	200	275	500	800	1200	140	200	275
Total Values of Zakah	53,900	76,000	103,950	112,500	191,200	288,000	13,720	20,000	27,500

Source: Ministry of Agricuture, annual statistical reports.
Note (1): Numbers of livestock in 000's and values in 000's of Sudanese Pounds.
Note (2): The Southern Region has been excluded.

greater than thirty) to be approximated as in accordance with the following formula:

```
Average Yield = ( ([n] / 40) + ([n] / 30) ) / 2
```

Where ([n]/40) refers to cattle aged 2-3 years and ([n]/30) refers to those of age 1-2 years. Traditionally, these two age groups, are known as *Musin*'s and *Tabi*'s respectively.

(ii) Refering to cattle distribution by region estimated by the Ministry of Agriculture, we assumed 60 percent of the total number to be liable for the levy.

(iii) To estimate values of the potential yields, we considered average domestic prices during the period of the study.

- **For Goats and Sheep we assumed:**

(i) Average yield from the possessions which exceeded the *Nisab*, [n], is to be approximated as:

```
Average Yield =( ([n]/80)+(([n]/160)x2)+(([n]/250)x3)) ) / 3
```

Note : the above approximation is derived from Table 8.5 in the previous chapter, where 80, 160 and 250 are the mid intervals for animal groups 40-120, 120-200 and 200-300 respectively.

(ii) 40 percent of the total is proposed to attain the *Nisab*.

(iii) For the valuation of the *Nisab*, we have considered average domestic prices of goats and sheep.

6.3.3 The Potential Yield from Business and Trade

The commercial sector in the Sudan, as with agriculture, is also very important in its contribution to GDP and to government revenues. On average its contribution to the gross national product during the 1980's accounted for about 20 percent of the total. For the purposes of the *Zakah*, this sector is much considered by the policy makers, but its contribution to the total revenues, as covered in the previous sections, was not significant. In this part of the study, an effort has been

made to estimate the potential yield from incomes by main companies and traders as revealed in the report on direct taxes by the Department of Taxation for the year 1987.

In estimating the potential revenues, the latest available records about the number of business units and their roughly net assets have been adopted using the following assumptions: 3

(i) All incomes less than five thousand Sudanese Pounds are assumed to be exempted from the levy policy. Here, we have taken into account the market value of the *Nisab* specified by the policy makers in 1984/85 which was estimated to be equal to 3600 Sudanese Pounds.

(ii) As it is recommended by the general theory, an annual rate of 2.5 percent has been adopted to predict potential yields.

It must be pointed out that, although the records provided by the Department of Taxation did not refer to details of the net working capital, the basic needs or any of the necessary conditions required for the specification of the *Nisab* for this

Table 6.14: Potential Revenue Yield from Business and Trade (1985/6)

(1) Income Groups (000's S.Ps.)	(2) Class Intervals (000's S.Ps.)	(3) Number of Business Units	(4)=(2)X(3) (000's S.Ps.)	(5)=(4)X(2.5%) (000's S.Ps.)
0- 5	2.5	35,029	87,573	exempted
5-10	7.5	3,847	28,853	721
10-15	12.5	1,643	20,538	513
15-20	17.5	665	11,638	291
20-30	25.0	630	15,750	394
30-40	35.0	322	11,270	282
40-50	45.0	270	12,150	304
50-100	75.0	558	41,850	1,046
100-200	150.0	361	54.150	1,354
200-300	250.0	104	26,000	650
300-500	400.0	106	42.400	1.060
500-1.000	750.0	115	86,250	2,156
1,000-2.000	1,500.0	56	84.000	2.100
2,000-4.000	3,000.0	55	165.000	4.125
4,000-8.000	6,000.0	19	114,000	2,850
8.000-12.000	10,000.0	10	100.000	2.500
12,000-16.000	14,000.0	2	28.000	700
16,000-20.000	18,000.0	4	72.000	1.800
20,000-25.000	22,500.0	3	67.500	1.688
25.000-30.000	27,500.0	2	55.000	1.375
30,000-40.000	35,000.0	0	—	—
40.000-45.000	42,500.0	1	42.500	1.063
Total	—	43.792	1.166.422	26.971

Source: Adopted from Reports by Taxation Department.
Note 1: Figures of the southern provinces were excluded from the calculations.
Note 2: S.Ps. refers to Sudanese Pounds.

category, might give a good signal of the taxable capacities for such a category (see Table 6.14).

6.3.4 Summary and Analysis of Potential Revenue Yield

This section will consolidate the potential revenue yield by the major sources and also will throw some light on the possible role that might be played by the policy in the future with respect to important economic variables. It should be mentioned here, that many tangible sources which could be mobilized for the purposes of the *Zakah*, e.g. industrial products, extractives from mines, estate properties and incomes of the Sudanese working abroad, were not able to be covered in the estimations as it was not possible to obtain enough data and information about them. The emphasis, therefore, was mainly on those sources with relatively more adequate statistical data and which are of high importance to the national economy. These are mainly the agricultural sources, livestock and the roughly recorded incomes and revenues originating in the commercial sector. In addition, the estimates also include the actually collected revenues from wages and salaries by the public sector during the period in question (see Tables 6.15 and 6.16).

The results in Table 6.15, provide evidence for the important role which might be played by animal husbandry in the total potential revenues. From the estimates, the potential contribution of animal wealth in the total accounted on average for about 60 percent, whereas for agriculture and commerce it was found to be equal to 33 and 6 percent respectively. The remaining part (1 percent) is made up of the actually collected revenues from wages and salaries originating in the public sector during the same period. The low contribution of wages and salaries to the total revenues in the Sudan is also influenced to some extent by the low per

Table 6.15: The Potential Revenue Yield by Tangible Sources

Sectors	84/85		85/86		86/87	
	Yield	%	Yield	%	Yield	%
Agricultural Sources	121.57	36.7%	163.97	34.0%	189.51	29.5%
Livestock	180.12	54.3%	287.20	59.5%	419.45	65.3%
Business and Trade	26.97	8.1%	26.97	5.6%	26.97	4.2%
Wages and Salaries	2.86	0.9%	4.49	0.9%	6.47	1.0%
Total	331.52	100%	482.63	100%	642.40	100%

Sources: addapted from Tables 6.10-6.13.

Note: Values in million of Sudanese Pounds.

Table 6.16: The Economic Effects of the Potential Revenues

Items Years	(1) Pot.Y.	(2) GDP	(3) Tax Y.	(4) D.T.Y.	(5)= (1)/(2)%	(6)= (1)/(3)%	(7)= (1)/(4)%
1984/85	331.5	14,173	997.5	196.00	2.3%	33.2%	169%
1985/86	482.6	21,018	1,302.5	317.00	2.3%	37.1%	152%
1986/87	642.4	30,676	1,664.0	408.00	2.1%	38.6%	157%

Sources: Column 1 is addapted from Table 6.14 and 2, 3 and 4 are from the Economic Survey Report 1987/8.

Note: Pot. stands for potential; Y for yield; and D.T. for direct taxes (Values in million of Sudanese Pounds).

capita income and the shortage of information about the incomes in the private and informal sectors.

The figures in Table 6.15, so far, seem to indicate a tendency for the relative importance of livestock to increase significantly in contributing to revenue yield in the future, although they have not yet been tapped. One of the reasons for the enormous revenue yield differential between livestock and agricultural produce is directly related to the exclusion of many agricultural products in the estimation due to lack of sufficient records. Another reason for that difference also seemed to be co-ordinated with the inelastic demand for meat in the Sudan which in turn raises the market prices of animals. The high prices could also be related to the overwhelming importance of the social aspects of animal ownership among many tribes they accumulate animals to gain social prestige and thus not sending them to markets, thereby not increasing the total supply of animals until there is a need for some money to facilitate the transaction of goods and services.

By comparing the potential revenues with the gross domestic products (GDP), tax revenues (T.R.) and direct taxes revenues (D.T.R.), to examine the economic significance of the potential yield, it is found that the contribution of the potential revenue yield with respect to GDP has amounted to 2.6, 2.3 and 2.1 percent for the years 1984/85, 85/86 and 86/87 respectively (see Table 6.16). This ratio, however, is fairly high, particularly if compared with the share of the actual yield, as shown in Table 6.9, or even with the contribution of direct taxes to GDP which did not exceed on average 1.8 percent during the period 1984/85-86/87. With reference to tax revenues, the contribution is quite significant and increasingly improved from 26.1 percent in 1984/85 to 28.7 and 36.3 percent as in the years 1985/86 and 86/87 respectively (see Table 6.9). By comparison with the direct tax rev-

Fig. 6.3: Potential Revenue by Main Sources 1984/5-86/7

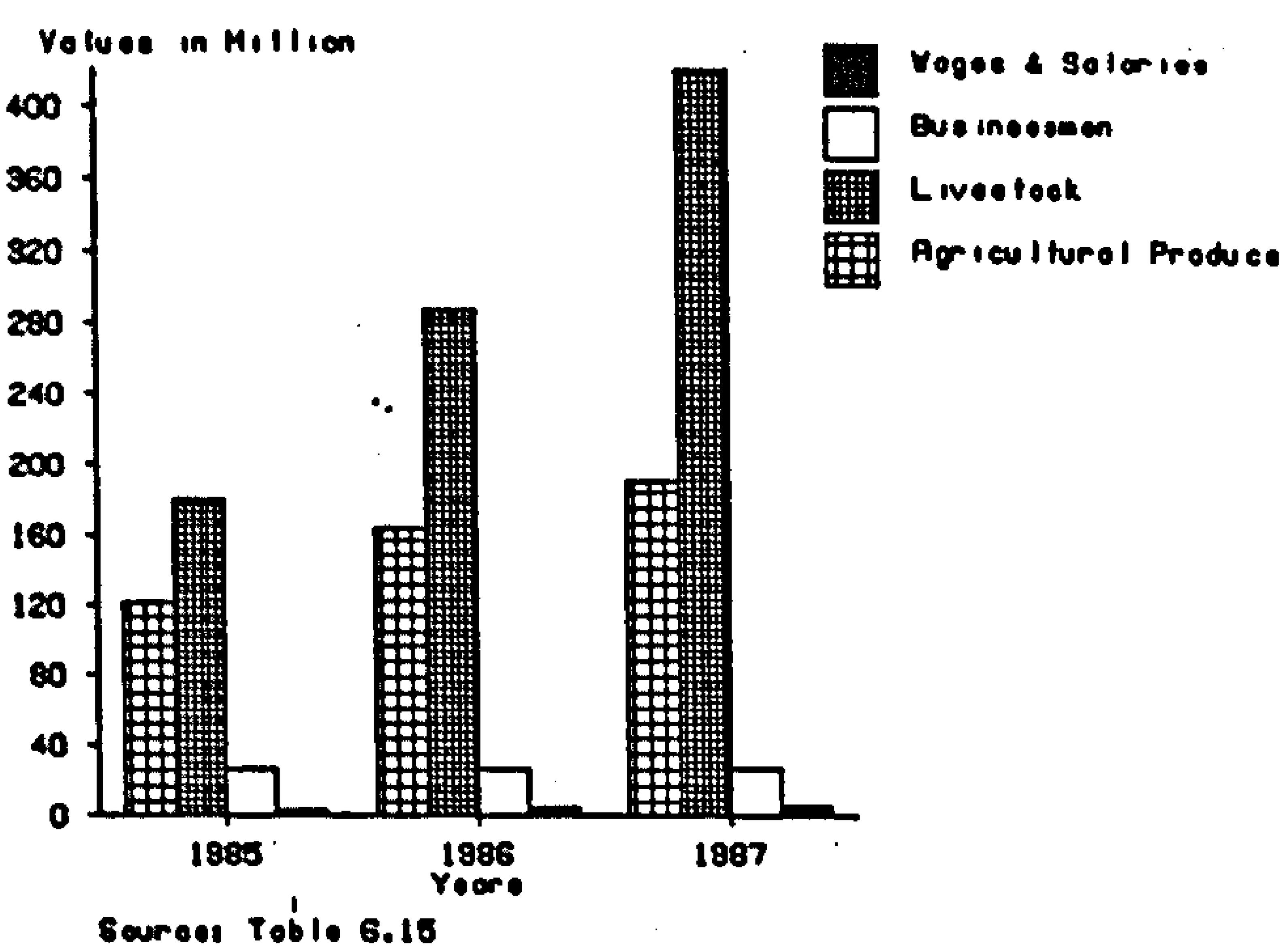
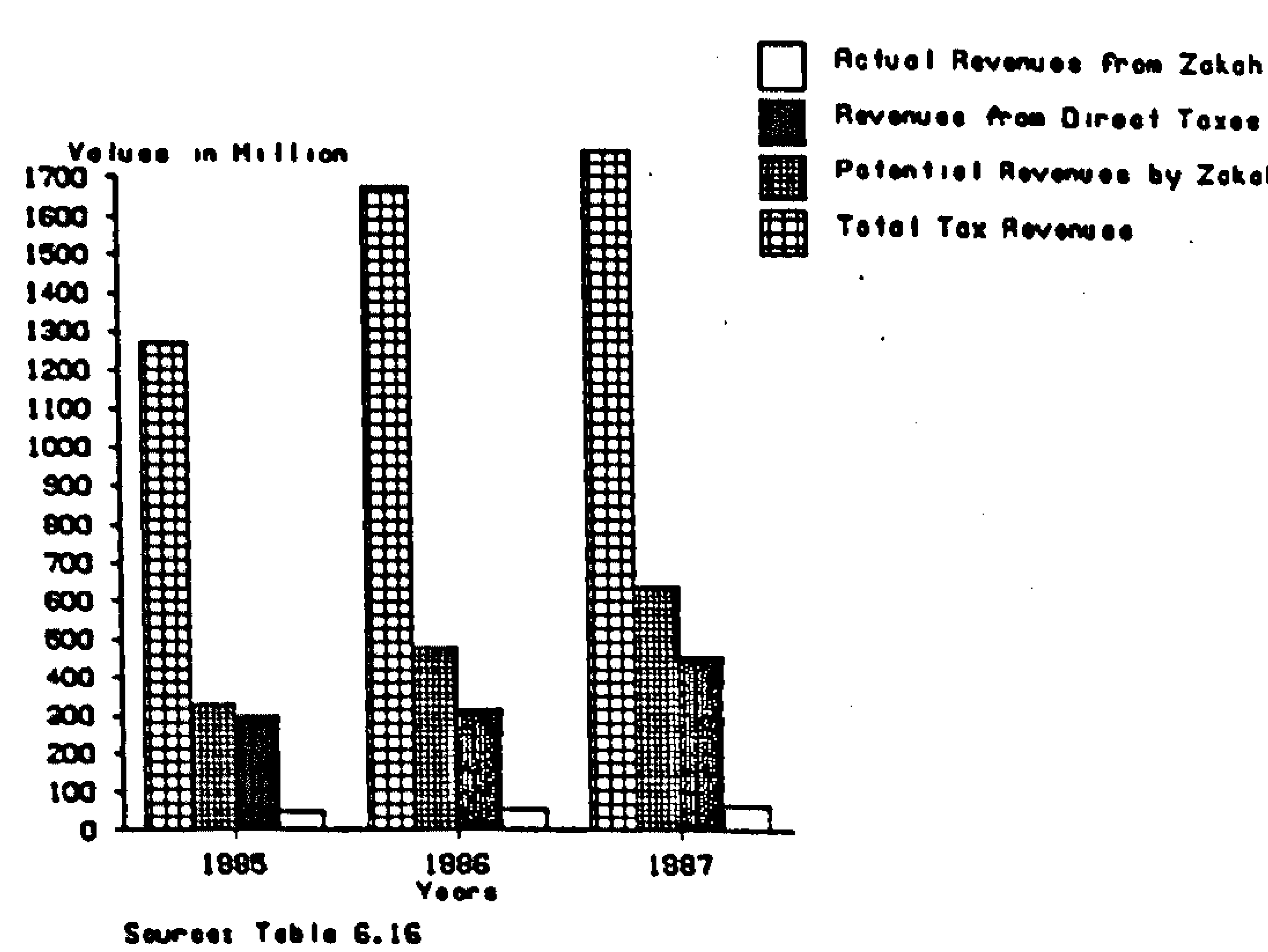


Fig. 6.4: The Economics Effects of Actual and Potential Revenues

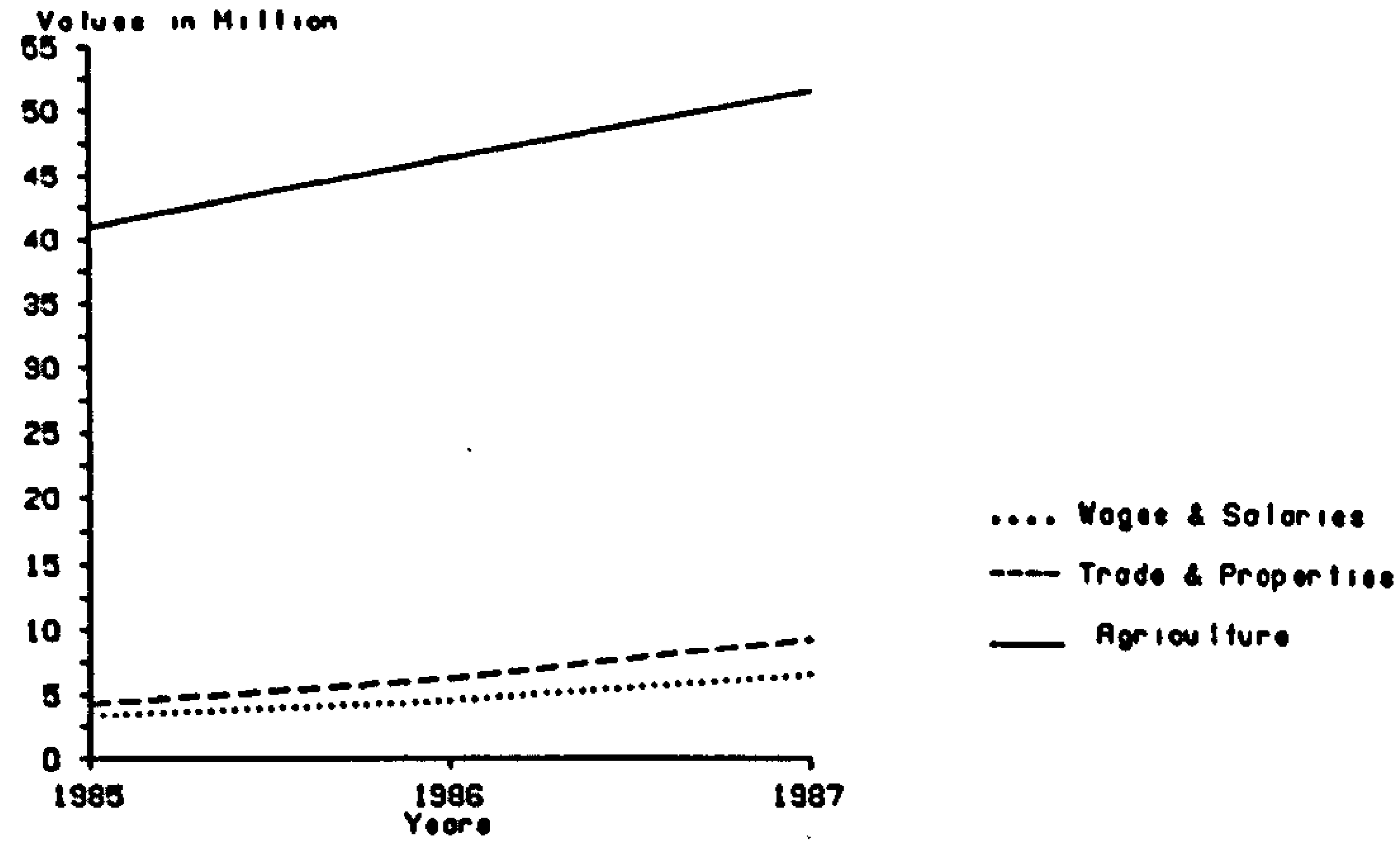


enues, the potential revenues show a much better performance, about one and a half times the contribution of the direct taxes. This implies that the potential sources can significantly participate in the total revenues if a comprehensive policy is broadly imposed to cover all sources, particularly animal and agricultural sources, the dominant activities for approximately 80 percent of the economically active population.

Despite the arbitrariness surrounding the estimates of the potential revenue yield, they are far better to give an approximation, or at least a signal, of the potential taxable capacities in the future. The computed results generally indicate that livestock is potentially one of the most promising areas of development. One of the difficulties which might be counted against the mobilization of animal sources into the revenue yield at the moment, is the inadequacy of the animal census in determining the sizes of ownership by animals' possessors and the distribution of the various types of animals. Another obstacle was also the lack of expert staff and facilities as well as the relatively recent establishment of the practice. By overcoming these difficulties, the share of livestock in the total revenues would further be improved, undoubtedly leading to the development of the sector and so too of the national economy.

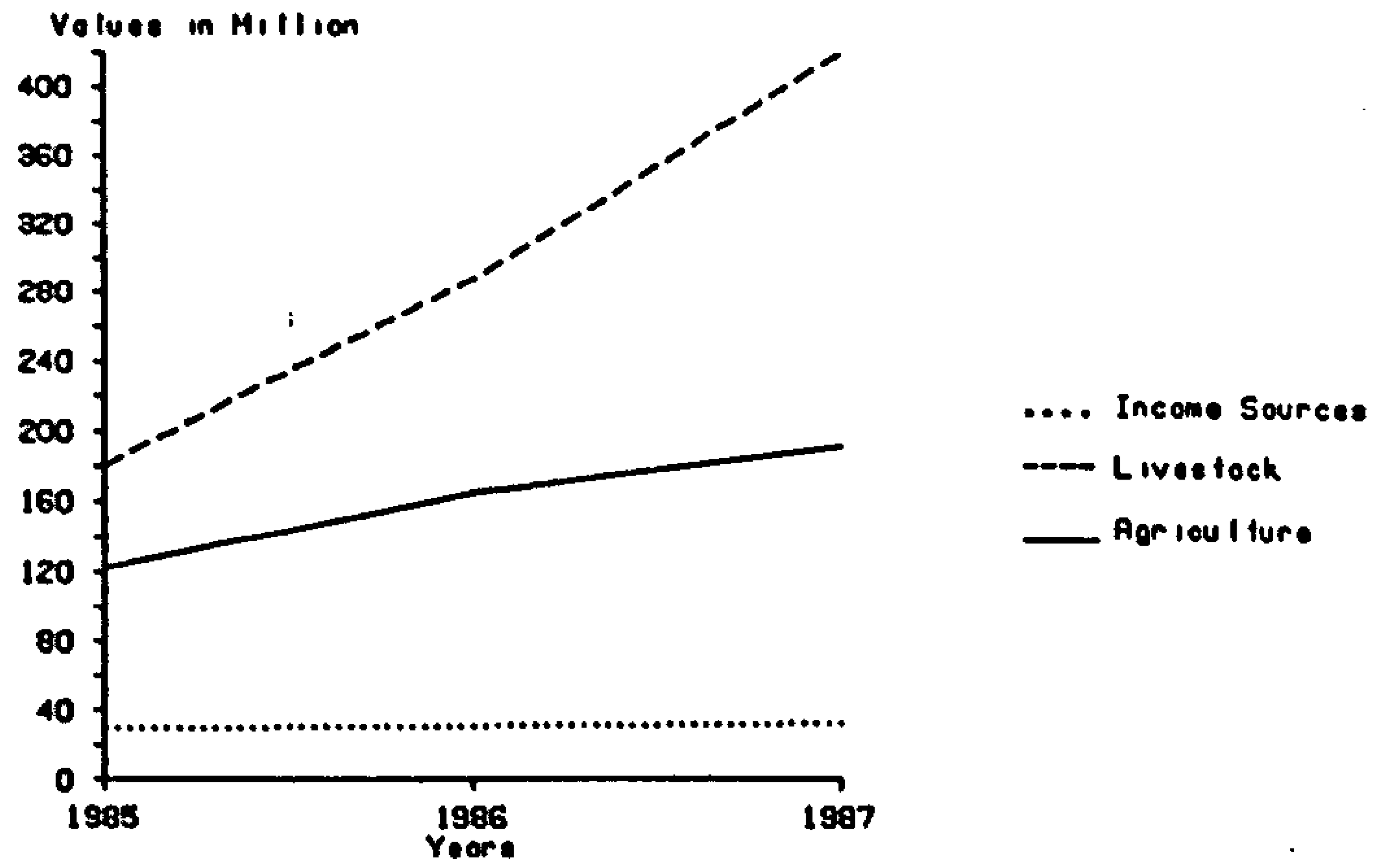
In estimating the potential revenue yield from animal wealth, however, the southern region have not been included. This can be noticed from the variation in animal population between Tables 2.3 and 6.12. According to the latest statistics about the distribution of animal population by regions in the Sudan during 1980-1985, it is founded that the northern region included about 67 percent of the total number of cattle, 98.6 percent of the total number of camels, and 81.3 percent of the total number of goats and sheep (Ministry of Agriculture, 1987).

Fig. 6.5: Growth of Actual Revenue Yield by Sources



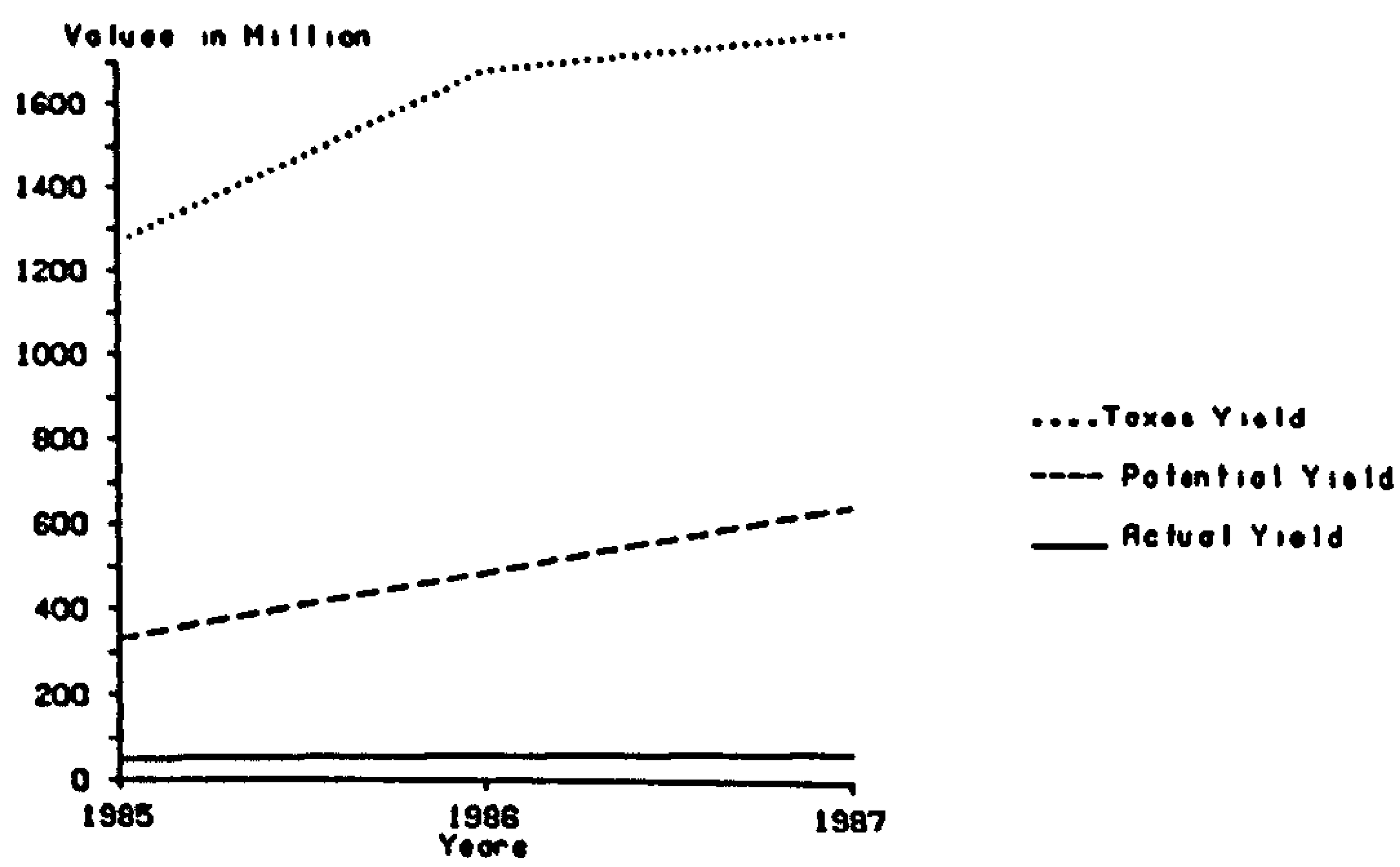
Source: Table 6.6

Fig. 6.6: Growth of Potential Revenue Yield by Sources



Source: Table 6.15

Fig. 6.7: Comparison of the Zakah Proceeds with Taxes



Source: Tables 6.9 & 6.16

The agricultural sector, the key sector of the national economy, has also shown a fairly steady growth in the estimated revenues, but if compared with the real size of the sector, the values would not be high. It must be pointed out here that not all agricultural products were employed in the estimation but only the major ones on which there are more sufficient statistical data. For example, it was not possible to estimate the potential yield by horticultural products such as citrus fruits, mango, dates, bananas and various vegetables, as factual information as to area, output and value is inadequate.

Unlike that in the traditional sector, the potential yield from income sources, namely incomes from business activities and wages, originating in the urban sector did not show a good performance. On average the contribution during the period of the study did not exceed 6 percent of the total. This means that more effort would be needed to mobilize other promising sources, e.g. estate properties, industrial products, etc., to improve revenues from the urban sector.

6.4 Findings and Suggestions from a Questionnaire

6.4.1 Aims and Methodology

An attempt is made here to describe and analyse a questionnaire designed mainly to assess the responses by the policy makers and executive staff in carrying out the objectives of the new policy and also to investigate their plans and suggestions to improve the potential revenue yield in the future. As little research has been done on the subject, the questions have been designed in particular to re-examine the aims and policies of collection and distribution as well as to check for the efficiency and effectiveness of the administration in publicity and research to inform the people of the significance of the policy. This is because the respondents, whether policy makers or normal staff, were deemed to recognise the goals of the policy and its general framework.

In developing the questionnaire, use has been made of Oppenheim (1966) and Bailey (1982) to design questions assumed to stimulate information and which are easy to answer. The questions, therefore, have been chosen to satisfy at least the following necessary conditions (see Appendix 1):

(i) `Relevance of questions:` In this respect the questions were constructed in such a way that they were relevant to the theme of the study and to the respondents.

(ii) `Multiple choice response:` Subject to this, the questions were chosen to be closed, with the respondent given a choice of alternative replies. In this respect, open questions are only restricted in the comments and where-ever it is necessary to know the view of a respondent on particular issues. Closed questions are prefered because they are easy to answer, and quicker and more straight forward to quantify and analyse. On the other hand, open questions require superior writing skills and better abilities to express ones' feelings (Bailey, 1982).

(iii) `Anonymity:` All respondents, in this respect, were given the assurance of a guarantee of anonymity so as to give free answers. Therefore it was optional for a respondent to write his name or give any confidential information in the questionnaire; instead each form is given a number.

(iv) `Unbiasedness:` With respect to this, the forms were distributed randomly to the respondents. It must be pointed out here that in order to have a full representative sample, more than a hundred forms were distributed to cover almost all departments and sections. However, only seventy were completed and returned; it is upon these that our analysis will mostly be based.

6.4.2 Descriptive Analysis of the Questionnaire

This questionnaire is an exploratory exercise in which the opinions of various parties involved in the administration of the system of *Zakah* were reviewed with respect to a number of factors felt to be fundemental to the improvement of the present practice in the Sudan. The questionnaire concludes a discussion of seven themes of the policy which were considered most significant and relevant for the present research. These themes include: (i) the quality of administration; (ii) the objective goals of the policy; (iii) the policies most conducive to achieving those goals; (iv) the potential sources of revenue; (v) the ranking of the benficiaries; (vi) the methods of evaluation and (vii) recommendations for taxation policy (see Appendices).

In order to encourge the respondents to give answers freely, names and cofidential personal information was not required. It is worth noting that the respondents were asked only for certain items of personal information, such as experience, qualifications, job description .., etc. To save time, multiple choice answers were given to each question. It was also considered appropriate to include free answers in each question for those with views different from those of the researcher, or those working to make additional comments.

The following pages contain the findings of the questionnaire, which was carried out at the beginning of 1989 in the Sudan. One hundred respondents were chosen at random from the different levels of the employees involved in the administration of the system. It must be pointed out here that the co-operation of the staff was remarkable; there was no refusal to distribute and collect the forms by most of the executive staff working in the institution of *Zakah*. Although a fully represntative sample would ideally be larger than this, the limited time allocated to carry out the survey did not allow for a larger sample. Efforts were made to ensure that the investigation was as accurate as possible. The set of questions and responses reproduced from the questionnaire will be summed up in the following tables and models.

Table 6.17: General Description of the Administrative Staff

(Responses of 72 members of the staff)

Questions	Rank		Department		Experience			Qualification		
	H	L	D	C	0-2	2-5	+5	U	G	PG
Responses	15%	85%	48%	52%	83%	4%	13%	22%	71%	2%

Key: H= high; L= low; D= distribution; C= collection; U= under graduate; G= graduated; PG= post graduate; Experience in terms of years.

As Table 6.17 shows, the implementation of the system of *Zakah* in the Sudan was suffering from a deficiency in the quality of the staff in terms of experience, specialization and levels of education. More than 80 percent were newly appointed without even experience in the civil service, most of them having recently graduated from universities. From the 72 replies received only about 2 percent of the staff had post-graduate degrees in education. These results, however, justify the relatively low performance of the actual revenue yield from the practice compared to the potential yield as estimated in the previous sections of this chapter. These also imply that in the future, in order to raise the efficiency and effectiveness of the system, the working staff should comprise the skilled and most knowledgeable individuals. The level of knowledge and experience will assist not only in raising the efficiency of the system but also in developing the sources and methods of collection and distribution.

With reference to the ranking of objectives by the respondents, the religious reasons were ranked higher than economic factors. As Table 6.18 reflects, the strengthening of belief occupied the top position for 81 percent of the answers revealed in the questionnaire, followed by the distributional and social justice aspects in second place, with the economic factors coming last. The results, however, are quite relevant to the concepts of the system of *Zakah* as considered in the previous chapters. The low ranking of economic factors does not mean that they are not crucial elements in the economic system of *Islam*, but confirms the fact that the ultimate goal of *Muslims* is not to satisfy material needs directly but indirectly through the satisfaction of moral values which would in turn lead to the satisfaction of economics and social goals. For example, by employing ethical values in a *Muslim* society there would be no room for the hoarding phenomeneon (keeping of wealth away from circulation and investment), for interest transactions or for wasteful consumption since they are all prohibited in *Islam* (for more elaborations on these issues see chapter four). From the economic point of view, the circulation of idle wealth in an *Islamic* society will also help to improve the growth in productivity, levels of employment and the maldistribution of income and wealth, thus removing the spectre of famine and starvation from a *Muslim* society (Faridi, 1983).

Table 6.18: Ranking of Objectives by 72 Respondents

Objectives	Responses **				
	1	2	3	4	5
Strengthening of belief	81% *	7%	6%	3%	3%
Attaining of equal distribution	13%	43% *	40%	4%	0.0%
Bringing of social cohesion	13%	40%	43% *	4%	0.0%
Encouragement of investment	0.0%	11%	7%	72% *	0.0%
Generating of revenues	0.0%	0.0%	2%	14%	84% *

Note: values with (*) refer to the highest revealed preferences, (**) 1 is very important, 5 is unimportant.

Concerning the question of how the *Zakah* system is to be implemented, the answers given by the respondents suggest that the system should be imposed compulsorily by the state rather than be left to the conscience of *Muslims.* As regards the distribution of *Zakah*, 60 percent of the respondents were found to support the distribution of the proceeds in cash rather than in kind in order to avoid administrative difficulties which might arise from storing or transporting proceeds in kind. The respondents also showed a preference for the imposition of additional levies beside the *Zakah* in order to help in financing expenditures not defined in the uses of *Zakah.* With reference to the policy of introducing additional levies, 77 percent of the respondents were found to prefer a direct tax policy to an indirect tax policy. As in the case of the distributional policy of *Zakah*, the use of these additional levies should be made clear to the tax-payers. This policy, however, is more equitable for the payer of a tax since he will be more aware of the uses of his contribution to the state (see Table 6.19 for more details about these policies).

Table 6.19: The Recommended Policies for Zakah by the Respondents

Policies	Postive Responses	Negative Responses
To levy Zakah compulsorily	100%	0.0%
To distribute Zakah in cash	60%	40%
To impose other taxes	57%	43%
Other taxes to be imposed directly	77%	23%
Other taxes to be imposed indirectly	12%	88%

Note: All respondents support a compulsory policy for Zakah.

By asking the respondents to rate the easiness of the current sources liable for *Zakah*, the first choice of preferences was for articles for trade and financial holdings (67 percent), followed by agricultural produce, animal wealth and mineral resources in second, third and fourth places respectively. In an informal interview held with a senior administrative officer in the Chamber of *Zakah* to elicit his comments on this ranking, it was said that the existing resources of the chamber have not been sufficient to allow for the collection or estimation of the many potential resources accessible in the traditional agricultural sector. The revealed results, however, are not surprising since most of the staff were trained in the Department of Taxation, and were thus more familiar with income taxation than with traditional agricultural taxes. According to the estimates in Table 6.20, the most important factors found to influence the ease of collection are the direct response of the payer and his willingness to pay *Zakah*, and the efficiency of administration, 71 percent of the respondents agreed with the importance of individual behaviour and 69 percent

Table 6.20: Revealed Responses towards the Easiest Sources

Sources	Responses			
	1	2	3	4
Agricultural Produce	25%	62% *	10%	3%
Articles for Trade	67% *	27%	2%	4%
Animal Wealth	5%	5%	75% *	15%
Minerals and Extractives	3%	8%	12%	77% *

Note: values with (*) refer to the highest response; 1 is very easy, 4 very difficult.

Table 6.21: The Measures of Determining the Easy Sources of Revenue

(Responses of 72 respondents)

Factors	Responses			
	1	2	3	4
The Nature of the Wealth	26%	61% *	13%	–
Postive Responses of Payers	71% *	21%	8%	–
Efficiency of Administration	69% *	18%	13%	–
Information Flow	30%	60% *	10%	–
Time and Place of Collection	16%	39%	45%	–

Note: (*) refers to the highest revealed preferences; 1 very important, 2 quite important, 3 important, 4 not important.

with the administrative mechanism. The second most important factors were the nature of the wealth and availabilty of information.

Table 6.22: Revealed Responses towards Ranking Zakah's Beneficiaries

Groups of Beneficiaries	Responses						M.C.
	1	2	3	4	5	6	
The Poors	85% *	6%	–	–	–	–	9%
The Needy	4%	76% *	8%	–	–	–	12%
Zakah Employee	–	3%	59% *	12%	10%	–	18%
Reconciled People	–	–	6%	31% *	21%	19%	23%
Those in Bondage	–	–	18%	8%	13%	31%*	30%
Those in debt	5%	12%	13%	17%	28%*	–	25%
The Wayfarers	–	7%	8%	18%	14%	26%	27%
In the Way of Allah	–	13%	18%	8%	15%	18%	28%

Note: Ratios with (*) refer to highest revealed responses; integer 1 refers to very important, 2 quite important, 3 important, 4 less important, 5 rather unimportant and 6 unimportant.

Regarding the question of the most suitable policy to distribute the proceeds from *Zakah*, the respondents agreed that priority should be given to the poor and needy groups of *Muslims*: 85 percent ranked the poor as a first choice and 76 percent ranked the needy as second. It must be pointed out here that in theory there is no clear distinction between the so called poor and needy persons although the holy *Quran* mention them seperately. For example, the *Malikite* and *Shafiate* conceptions of the term poor are more flexible. According to the *Malikite* the poor is the one who lacks sufficient means to provide for necessities for one year. For the *Shafiate*, however, one is rich not only by possessing wealth but also by being able-bodied and able to earn a living (Abu Ubaid, 1981). Next to the poor and the needy in importance came the employee with 59 percent. With regard to other beneficiaries, the respondents seemed to be reluctant to specify precisely their preferences; this can easily be deducted from the relative increase of missing cases revealed in the recorded answers.

6.4.3 More Statistical Tests

In the estimates which follow we will apply a multiple regression model using a step-wise procedure to examine the relationship between the responses of the staff according to their qualifications and some of the issues considered to be important for the future success of system of *Zakah.* The model intended to be estimated is in its simplest form as follows:

$$Y_1 = C + b_1X_1 + b_2X_2 + \ldots + b_nX_n + e_1$$

Y refers to the dependent variable in the model; X$-i$ to the independent variables (i=1,2,...n); b_i the cofficients of the independent variables (i=1,2,...n); C constant; and e to errors.

By applying this model to our case and by choosing the qualification levels (Qual) as a dependent variable and the objectives of *Zakah* and the policies of distributing its proceeds as independent variables, the models we need to estimate will be as follows:

$$\mathrm{Qual} = C + b_iObj_i \text{ ------(1)}$$

$$\mathrm{Qual} = C + b_iBenf_i \text{ ------(2)}$$

For equation (1), the variable Obj_i stands for objectives, the suffix (i) here takes the values of 1,2,3 and 4, which refer according to the questionnaire to the strengthening of belief (Obj_1), equity in distribution (Obj_2), encouragement of investment (Obj_3) and generation of revenues (Obj_4). For equation (2), the variable Benf_i refers to to various beneficiaries of *Zakah*, which according to the questionnaire are as follows: $Benf_1$, the poor; $Benf_2$, the needy; $Benf_3$, the employee; $Benf_4$, the reconcilation of people; $Benf_5$, those in bondage; $Benf_6$, those in debt; $Benf_7$, the wayfarers; and $Benf_8$, in the sake of *Allah.*

By employing the multiple regression test using stepwise procedure to model (1), the test gave the following estimates:

$$\mathrm{Qual} = 1.7 + 0.15\ Obj_4 \text{ ------(3)}$$

with R^2 =0.11 ; F-Statistics = 4.52 ; and significance value of F equal to 0.040 .

The estimated equation shows a postive response by the respondent to the forth objective of *Zakah*, the encourgement of investment. As shown by the F-statistics value, the response was significant at 4 percent level. Other variables were not found to show significant contribution to the model and therefore were not entered in the estimated equation.

By using the regression model and step-wise procedure to model (2), the test gave the following results:

$$\mathrm{Qual} = 1.59 + 0.25\ Benf_2 \text{ ------(4)}$$

with R^2 =0.12 ; F-Statistics = 4.78 ; and significance value of F= 0.035 .

As model (4) predicts, the most important variable to the distribution policy of the proceeds from *Zakah* was the needy, and it was significant at a level of

3.5 percent. This result is quite satisfactory when confined to the early descriptive analysis of the questionnaire. It forecasts that the distribution policy of the proceeds from *Zakah* should give priorty to the needy groups of people.

6.4.4 Main Findings from the Survey

In the analysis of this questionnaire we have tried to investigate empirically how the Sudanese policy of *Zakah* was implemented and to measure the responses of the staff in carrying out the aims and policies of the system. It is evident from the survey that the respondents seem generally satisfied that the appropriate goals are being accomplished, despite some differences in how each respondent percieves these goals. According to the findings, the most popular policy of *Zakah* is one that is implemented compulsorily on all individuals. The findings have also established that administrative efficiency was not high and that there is apparent shortage in skillness and experience. These findings, however, when compared with the actual proceeds from *Zakah* covered in the early sections of this chapter, are quite satisfactory. Regarding the general taxation policy in the Sudan, the results suggest the superiority of direct taxes to indirect taxes. The weakest part of our data, and thus of the test, relates to the lack of sufficient information about the experience and the difficulties in obtaining more data about the practice of the policy in the remoter regions.

Chapter VII

Conclusion

7.1 Summary Conclusions

This section presents a summary of the main conclusions derived from the research, and outlines the major difficulties and problems which face the practice of *Zakah* and militate against the achievement of the ultimate goals of the policy.

It is in fact through researching and writing this study that the links between the theoretical issues considered in the first parts of the research and the real developments in practice have become more apparent to the researcher; that which during the early stages of the research seemed rather ad-hoc was firmly linked with the principles of *Zakah* and adapted to the basic concepts of the *Islamic* fiscal policy and the early practice of *Muslims.*

As is clear from the introduction, which examined the social structure of the Sudanese people and its impact on the economy, and from the second chapter on the salient features of the Sudanese economy and its tax structure, it is not difficult to arrive at the conclusion that a reform of the tax system and its adaptation according to the principles of *Zakah* would not be inappropriate. Clearly, one obvious aim of advocating reform of the present system is to improve the sources of revenue by broadening the tax base to cover all taxable capacities, namely the many potential sources in the traditional agricultural sector which have not been tapped before or included in the early tax's proposals. An example of the potential sources which can make the tax system in the Sudan a more powerful tool for redistribution of wealth and achieving socio-economic objectives are livestock, land and its produce, working capital and other forms of wealth, and incomes in the form of profits, rents and salaries. From the political point of view the reform of the tax system according to the *Islamic Shariah* principles can also be advocated since it commands wide support and takes into consideration the pressure of events and political expediencies. Of course, no reform proposal for taxation can be implemented successfully unless it commands wide support, at least among the major political representatives.

As seen from the theoretical discussion of the concept of *Zakah* and other levies such as *Kharaj*, *Jizya* and *Ushur* in Chapter (IV), one can conclude that the *Islamic* system of taxation does not only satisfy the spiritual needs of *Muslims* but also meets with the principles of taxation and recent proposals for a wealth tax suggested in Chapter (III). Both the *Zakah* and wealth taxation are primarly based on property and levied with relatively low rates on all individuals. The essential differences between the *Islamic* and secular systems of taxation is that the former is a part of the religious obligations of a *Muslim* to pay at least his *Zakah* on his net worth at a prescribed rate. The remarkable feature of this system is that:

Firstly, wealth should not be allowed to accumulate in a few hands, to the extent that the possessors could exploit and dominate others. Accumulation of wealth would also lead to excess in some sections of society, opening the doors to luxury, easy living and waste. Secondly, hoarding of money without spending it even on luxuries is not allowed since it keeps a considerable bulk of money out of fruitful circulation and thus harms the whole community. In this respect, private ownership is not an absolute right, but a social function to safegard against a class system in society. Furthermore, the *Islamic* system of taxation also provides a comprehensive tax base which covers almost all known types of material possessions, all forms of incomes and wealth. These levies, however, take as little as possible from the pockets of the ultimate possessors, and thus have no distortion effects on the economy and do not violate the economic efficiency principle of taxation.

Regarding the practice of the *Islamic* policy of taxation in recent times, Chapters (V) and (VI) give a comprehensive survey of the coverage of the *Zakah* base and spell out its salient features as apparent in the Sudanese practice during the 1980s. One of the important changes in the country's tax policy brought by the introduction of *Zakah* is the shift in the emphasis of the tax policy from a narrow tax base linked to incomes from the urban centres, to a comprehensive tax base which extends to cover incomes and properties originating in the traditional sectors. These additional taxable capacities include property tax related to the land and its produce, livestock, articles for trade and mineral resources, as well as incomes from business profits, rents and salaries. Not only has the total revenue yield been influenced by the policy of *Zakah*, the distribtion policy has also become more oriented towards the poorer groups and those in hardship.

7.1.1 Major Findings

The major findings from the Sudanese practice of *Zakah* as revealed in Chapter (VI) could be summarized into the following points:

- Agricultural produce was the most significant contributor to the total revenue yield. From the results of the empirical data indicated in Chapter (VI), the shares of agricultural resources accounted on average during the period of the study for about 80 percent of the total revenue yielded by

Zakah. The importance of agriculture received further support from the results obtained from the estimation of the potential revenue yield, which was found to be equal to about 35 percent of the total possible yield (see Tables 6.6 and 6.15).

- The estimation of revenues by regions indicated that most regions except the eastern region were suffering from high rates of under capacity utilization. In many cases, the actual utilization of potential revenue was not higher than 10 percent, e.g. in the western regions (*Kordofan* and *Dar-fur*). The results also revealed the inability of the present administration to mobilize available resources from regions far from the centre.

- As revealed in Table 6.15, livestock in the Sudan is potentially one of the most promising sources of development revenues for the future. Despite the uncertainity surrounding the estimates due to the inadequacy of the statistics, it appears the yield is high; its share in the potential revenue yield was estimated at 55 percent of the total yield.

- The results from the empirical data about the actual and potential revenue yield suggest that the traditional sector in the Sudan can effectively improve the redistribution policy and promote development.

- The results of the questionnaire and the interviews indicated that the policy makers ought to emphasise the role of planning and raise the quality of the staff through training and encouraging research. Most of the staff were found to lack experience and skill in civil administration in general and in the area of *Zakah* in particular. In the light of the questionnaire's results, it is possible to say that the demand for better collection methods, particularly at regional level, will increase the total revenue yield and improve the distribution policy, thus serving the goals of the system.

7.2 Policy Implications

The establishment of the institution of *Zakah* is not an end in itself; rather it is a mean of changing people's attitudes, their consumption behaviour and their styles of life at all levels. The most important implications of the institution for Sudanese social and economic life that might be deduced from this study are as follows:

- The *Zakah* policy is pro-growth and development. In fact, the exact meaning of the word *Zakah* is growth. This is can also be understood from the influence of the policy on paterns of consumption, saving and production, as well as on the distribution of income and wealth. By transfering from the rich to the poor, the *Zakah* will redirect resources from the production of luxuries and comforts to that of necessities, i.e. from what the rich would have demanded to what the poor would demand as they receive it. This is definitely desirable as it will improve the standard of living and increase human capital, one of the objective goals of development. Also, since the policy is based on the net worth of wealth or income levied at relatively low rates, it does not lead to economic distortion or result in inflation which hurts the poor rather than the rich who are able to meet the costs (Siddiqi, 1988).

- The policy also implies that the state should assume the responsibilty for recording and regulating the wealth earning activity of its subjects in order to prevent social injustice. The role of the state here is to balance the right to own property and the duty to society, the desire to save and the duty to give, in harmony with the teachings of *Islam*. This balance, as recognized by *Islam*, allows a full scope to private enterprise and acquiring wealth, but it puts on the other hand a healthy check upon the concentration of wealth in individual hands or its hoarding.

- The *Zakah*, by encouraging every individual to look upon his money and property with an eye to generosity and benevolence, downgrades ownership and puts more money into circulation, thereby raising the purchasing power of the poor and keeping the economy going. This in turn will help to eradicate poverty and create suitable conditions for employment and high rates of growth.

- Regarding the Sudanese tax system, the application of *Zakah* in the Sudan brought many changes and developments in its structure. Many taxes have either been repealed or amended to conform with the policy. Among the taxes that have considered in the amendments are income taxes (personal income tax, business profits tax, capital gains) and commodity taxes including royalities on exports, duties on imports and excise duties on locally produced goods. Accordingly, the high rates on personal incomes and business profits which might reach for high incomes groups and profits about 60 percent, was replaced with a low, flat rate of 2.5 percent of the net income in the line with the conditions of *Zakah*. One of the advantages of levying low rates on personal incomes, for example, is that the burden on low income groups will be reduced and thus lead to more incentives to work and to increase productivity. The advantages of reducing the rates on business profits are that the tendency towards tax evasion will be limited, resulting in greater incentive to improve businesses and to help to keep proper accounts and records which are crucial for the development of business. Low rates also encourge both domestic and foreign investors to participate in the task of developments and to mobilize their deposits and other resources into productive uses. The policy, by considering the tradtional sources, e.g. agricultural produce and livestock, in the tax reform, serves to broaden the the tax base and to improve the total yield.

7.3 Recommendations and Suggestions

From the empirical data and the results of the questionnaire, and in the light of the theoretical concepts considered in this study, one can come up with some valuable recommendations and suggestions which could develop the current practice of the policy and lead to better results in the future:

- From the results of the questionnaire and the structure of the staff in the Chamber of *Zakah*, it is clear that the staff should be better equiped to serve the objective of the system and to draw up plans for the future. In this respect, training programmes and research activities can be encouraged to develop the innate abilities of the individuals involved, to improve methods of collecting *Zakah*, and to develop the uses of its proceeds. One can also suggest here the introducing of incentives reflecting administrative efficiency in the collection or distribution of the proceeds from *Zakah*.

- In the light the results obtained from the estimation of the potential revenue yield, there is a need to give priority in the collection to agricultural produce and livestock since they are potentially the most significant sources of revenue. It must be pointed out here that the Sudan is fortunate in having more agricultural and animal resources than most *Muslim* countries. Therefore, its implementation could probably be carried out more effectively if such sources were guided by careful planning and efficient machineries.

- For the system to meet with the goals of development, the coverage of the policy has to be broadened to include forms of wealth not known in the early days of *Islam.* For example, the development of the sources should consider the treatment of *Zakah* on machinery, capital goods, real estate and produce of industrial units, as well as determining the suitable rate for the levy.

- In the light of the theories of taxation in the early periods of *Islam* and the system of *Kharaj*, the need to devise similar levies is quite relevant to that system, provided that they are raised in a just manner and within a certain bearable limit. The imposition of additional levies beyond *Zakah* in *Islam* is defended on the basis of the *Prophetic* saying that "in wealth there are also obligations beyond *Zakah*". Abu Yusuf also supports the right of the state to increase or decrease taxes; this, however, should be in harmony with the goals of *Islam* and strictly confined to the items mentioned by the jurists (Abu Yusuf, 1977). The system can also borrow from alien systems and ideas which do not violate *Islamic* principles since there is nothing wrong with that from the view point of the *Islamic Shariah.*

- Another source of income for the *Islamic* state which could be developed under the system of *Zakah* is the *Waqf* property, the voluntary transfer by an individual of his ownership to the ownership of the state for the benefit of the community. *Waqf* revenue should generally be spent in a manner somewhat similar to *Zakah.*

7.4 Concluding Comments

In this study we have tried to provide a comprehensive survey of the theory and practice of *Zakah* with reference to the Sudanese practice during the 1980s. The results obtained are quite satisfactory when confined to the limited resources and the lack in experince of the staff. The results reflect in general the domination of agriculture in the composition of the total revenues. The greater contribution of agriculture to other sources could be justified by the Sudanese development strategies which laid more emphasis on developing the agricultural sector. Apart from the fact that this study has been carried out to assess the contribution of the system to social welfare of a *Muslim* society, it is hoped that the objective and factual information presented, together with the subjective views of the respondents, will increase the resolve of the government to improve the administrative machinery and encourage research to develop the practice of the policy in the future and to provide information for the entire planning of the economy.

It is hoped that this research will satisfy the intellectual cravings of the Sudanese youth and to help them to develop workable models and spell out policy alternative to realize the socio-economic objectives of the system. Finally we hope that we can develop this research into a further sustained study to include in detail the issues not covered in the present work.

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Appendices

Appendix A

A Questionnaire About the Administration of Zakah

1. General information about the employee:

(a) Name (optional).................. (b) The Department................ (c) Rank..............
(d) Experience.................... (e) Qualification.......................

2. Please rate the following objectives according to their importance to Zakah (1 very important, 4 not important)

Questions	Responses			
	1	2	3	4
(a) the strengthening of belief & brotherhood				
(b) to attain social justice				
(c) promotion of development				
(d) to generate revenues				
(e) others (please specify)				

3. Rank the importance of these sources to the revenues from Zakah (1 very important, 4 not important).

Questions	Responses			
	1	2	3	4
(a) agricultural produce				
(b) articles for trade and finacial holdings				
(c) livestock				
(d) minerals and treasure-troves				

4. Which of the following policies do you favour (please tick)?

(a) to impose Zakah compulsorily ( ); or (b) to collect it voluntarily ( ).

5. Specify the preferred way to obtain information about the sources of Zakah (1 is strongly prefer, 2 prefer, 3 indifferent and 4 would rather not)

Questions	Prefrences			
	1	2	3	4
directly by the staff				
through by Zakah-payers				
from official documents & statistics				
others (please specify)				

6. Could Zakah be a substitute for other taxes levied by the State?
   Yes ( ) ; No ( ).

7. If the answer is no, how can additional levies be introduced? (1 is strongly prefer, 2 indifferent and 3 object to such levies)

Questions	Preferences		
	1	2	3
to impose them directly on individuals			
to imopse them indirectly on commodities			
to impose them on temporary basis as required			

8. To what degree do the following principles govern the levy of other taxes? (1 clearly govern, 2 think they govern, 3 don't know and 4 don't govern)

Questions	Responses			
	1	2	3	4
the principle of faith				
the principle of equity				
the principle of growth and productivity				
the principle of convenience				
others (please specify)				

9. How are the proceeds from Zakah to be spent? (1 strongly prefer, 2 prefer, 3 indifferent, 4 disagree)

Questions	Responses			
	1	2	3	4
directly to the beneficiaries in cash				
directly to the beneficiaries in kind				
to invest them for the interest of the needy				
others (please specify)				

10. Are the proceeds from Zakah sufficient to cover all groups of the beneficiaries specified in the Quran? Yes ( ) ; No ( )

11. If the answer is negative, please specify the relative importance of the following beneficiaries? (1 very important, 2 quite important, 3 important, 4 less important, 5 rather unimportant, 6 not important)

Questions	Responses					
	1	2	3	4	5	6
the poor; who has no income						
the needy; who need supplement						
the employee						
those in bondage						
those whose hearts have been reconciled						
those in debt						
the wayfarers						
the cause of Allah						

12. Rate the importance of these factors in determining the revenue yield from the different sources of Zakah? (1 very important, 2 quite important, 3 important, 4 unimportant)

Questions	Responses			
	1	2	3	4
the determination of the Nisab				
flow of information				
tendancy towards evasion				
the quality of the staff				
others (specify)........				

13. Please enumerate three difficulties you feel are of particular useful to develop the practice of the policy? 1/..................... 2/..................... 3/.....................

14. Please give any comments you feel are not covered by this questionnaire ?
....

Thank you for taking the time to answer all these questions and for immeasurable co-operation.

Researcher: Eltayeb A. Shumo
January 1989

Appendix B: Weights and Measures in the Sudan

	Weight for One Standard Ardeb of Crops *
Items	Equivalent Weight in Kilograms
Durah	184
Dukhn (Millet)	188
Wheat	202
Sesame	150
Broad Beans	202
Haricot (Fasulia)	202
Groundnuts(in Shell)	90
Onions	59
	Standard Weights Measures
Large Kantar	= 0.141 Metric Tons = 141 Kilograms
Small Kantar	= 44.9 Kilograms
Metric Ton	= 100 kilograms
Kilogram	= 2.22 Rottles
Rottle	= 0.99 Pounds
	Area Measures
Feddan	= 4,200 Square Metres = 0.42 Hectars = 1.0379 Acres

Note: (*) Ardeb is a local measure for capacity which is analogous to 2 sacks.

Appendix C.1: Area and Output of Sudan's Cash Crops (1981-88)

	Years						
Crops	1981/82	82/83	83/84	84/85	85/86	86/87	87/88
1-Cotton							
Area	972	1023	1018	996	798	828	795
Output	474	583	629	619	413	546	500
Yield	488	569	618	621	518	659	630
2-Groundnuts							
Area	2376	1862	1834	1758	1018	1289	1657
Output	738	492	413	386	286	379	425
Yield	311	264	225	220	281	294	256
3-Sesame							
Area	2044	1999	2177	1853	2518	2233	2285
Output	242	163	206	133	134	216	233
Yield	118	85	95	80	55	100	105
4-Gum Arabic Area	—	—	—	—	—	—	—
Output	—	32	39	31	20	29	39
Yield	—	—	—	—	—	—	—

Source: Ministry of Agriculture- Department of Statistics.

Note: Area in 000's Feddans; Output in 000's Metric Tons and Yield in Kilograms per Feddan.

Appendix C:2 Area and Output of Sudan's Food Crops (1981-88)

	Years						
Crops	1981/82	82/83	83/84	84/85	85/86	86/87	87/88
1-Durah							
Area	9231	8664	8782	8160	12875	11813	8365
Output	3272	1940	1829	1110	3524	3277	1307
Yield	354	324	208	140	274	277	160
2-Millet							
Area	2925	2784	3025	3426	4128	3676	2599
Output	509	341	314	170	417	285	155
Yield	174	122	105	50	100	80	60
3-Wheat							
Area	329	233	350	115	360	282	345
Output	142	142	170	80	200	160	185
Yield	432	605	480	680	550	556	530
4-Vegetables							
Area	—	83	157	95	135	71	—
Output	—	441	750	460	440	365	—
Yield	—	5320	—	—	—	—	—
5-Fruits							
Area	—	150	154	157	155	90	—
Output	—	630	665	450	728	400	—
Yield	—	4580	—	—	—	—	—

Source: Ministry of Agriculture- Department of Statistics.

Note: Area in 000's Feddans; Output in 000's Metric Tons and Yield in Kilograms per Feddan.

Appendix C:2 Area and Output of Sudan's Food Crops (1981-88)

	Years						
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Area	9231	8664	8782	8160	12875	11813	8365
Output	3272	1940	1829	1110	3524	3277	1307
Yield	354	324	208	140	274	277	160
2-Millet							
Area	2925	2784	3025	3426	4128	3676	2599
Output	509	341	314	170	417	285	155
Yield	174	122	105	50	100	80	60
3-Wheat							
Area	329	233	350	115	360	282	345
Output	142	142	170	80	200	160	185
Yield	432	605	480	680	550	556	530
4-Vegetables							
Area	—	83	157	95	135	71	—
Output	—	441	750	460	440	365	—
Yield	—	5320	—	—	—	—	—
5-Fruits							
Area	—	150	154	157	155	90	—
Output	—	630	665	450	728	400	—
Yield	—	4580	—	—	—	—	—

Source: Ministry of Agriculture- Department of Statistics.

Note: Area in 000's Feddans; Output in 000's Metric Tons and Yield in Kilograms per Feddan.

Appendix D.1: Total Revenue Yield from the Traditional Taxes (1941-50)

Sources	1941	42	43	44	45	46	47	48	49	50
(a)Provinces										
Date Tax	22.3	22.3	22.3	21.2	22.2	13.0	0.1	0.1	0.1	-
Taxed Land	17.0	22.9	37.3	37.1	24.8	22.6	5.8	1.1	1.0	-
Ushur	18.2	34.2	59.4	33.2	15.6	30.8	21.2	17.5	17.1	-
Poll Tax	7.5	14.2	13.7	14.3	14.8	17.7	18.6	30.1	33.7	-
Animal Tax	59.6	52.4	71.8	72.9	61.5	86.1	24.2	30.7	34.8	-
Tribute	99.2	100.5	107.7	112.0	110.7	121.0	145.5	226.4	236.5	-
B.P.T	47.0	75.8	40.9	34.8	32.4	31.8	14.1	11.0	12.5	-
House Tax	28.3	30.8	33.6	32.3	33.9	36.5	36.4	46.9	49.5	-
Lands' Rents	59.2	58.9	64.0	60.93	58.8	60.5	57.6	65.1	71.7	-
Cont. from local Adm.	68.1	65.8	110.5	146.7	218.2	241.0	325.3	281.8	280.0	-
Miscellaneous	199.1	221.1	192.3	171.8	161.5	164.1	159.0	177.3	142.0	-
Subtotal (1)	626.0	699.0	753.6	737.3	754.6	807.3	807.9	860.0	879.0	1588.4
Departments*	886.3	939.3	1017.1	1142.9	1523.9	1498.2	1833.1	2198.7	2870.3	5398.2
Central Services -Customs	1007.9	1032.0	1129.4	1247.6	1387.9	2137.3	2991.9	4406.3	5908.9	15986.6
-Royalities	208.6	173.1	177.3	138.2	225.1	351.0	371.3	491.1	620.9	1693.4
-Sugar	317.6	152.1	127.9	551.1	665.6	600.0	279.1	747.7	843.7	830.3
Subtotal (2)	1534.1	1357.2	1434.7	1936.9	2278.7	3088.4	3642.4	5645.2	7373.6	18510.3
Railways	495.0	625.0	495.0	595.0	595.0	595.0	450.0	400.0	300.0	450.0
Irrigation(Gezira)	1212.7	1542.5	1335.3	1261.0	1565.3	1286.0	2228.8	5227.1	5960.6	12692.0
Others	625.0	651.1	826.1	905.6	1045.6	1014.1	1179.3	1319.7	1788.5	2086.9
Total	5379.3	5814.2	5861.9	6578.8	7763.1	8289.0	10141.5	15650.8	19172.1	40725.8

Source: Sudan Government, Reports on Administration.

Note: All values in 000's of Sudanese Pounds.

Appendix: D.2 Direct Taxes' Payers by Main Regions in Sudan 1986

	The National Capital				Other Regions					
Income @ Groups	Companies	Traders	Est-ate	Oth-ers*	Cen-tral	Northern	Eastern	Kordfan	Darfour	To-tal
0-1	–	1912	595	69	3870	1673	6309	264	601	15293
1-2	3	3409	380	88	2108	619	1315	339	479	8740
2-5	5	4236	476	267	2045	1237	757	1010	953	10986
5-10	23	1825	265	182	548	203	342	339	120	3847
10-15	49	419	89	86	702	51	84	100	63	1643
15-20	38	265	44	30	75	40	75	64	34	665
21-30	115	265	27	9	82	30	35	38	29	630
30-40	97	142	4	6	26	7	12	17	11	322
40-50	83	128	3	5	17	8	15	7	4	270
50-100	343	154	3	4	9	13	9	12	11	558
100-200	248	100	2	1	4	1	2	2	1	361
200-300	91	–	–	–	–	–	–	2	2	104
300-1000	192	–	–	–	–	–	–	–	–	221
1000-2000	56	–	–	–	–	–	–	–	–	56
2000-4000	55	–	–	–	–	–	–	–	–	55
4000-12000	29	–	–	–	–	–	–	–	–	29
12000-200000	6	–	–	–	–	–	–	–	–	6
200000-300000	5	–	–	–	–	–	–	–	–	5
300000-450000	1	–	–	–	–	–	–	–	–	1

Sources: Ministry of Finance, Department of Taxation, 1986/87.

Note: @ Wages and Salaries were not included; * Others refers also to incomes by craftsmen and technicians; values in 000's of Sudanese Pounds.